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Rebels Seize Capital In Uganda, Dissolve Military Regime

KAMPALA, Uganda — Rebels of the Ugandan National Resistance Army seized Kampala, the capital, on Sunday. Their leader, Yoweri Museveni, said he had dissolved the ruling Military Council and would establish a new government.

Kampala fell to the rebels after street battles that began Friday between the guerrillas and government soldiers. Hundreds died on both sides.

The bodies of the dead littered the streets as thousands of Ugandans came out of their homes to celebrate the takeover by guerrillas who have fought for power for five years.

Mr. Museveni, speaking on Radio Uganda, said he had dissolved the ruling Military Council headed by Lieutenant General Tito Okello. The radio station resumed broadcasts Sunday for the first time since Friday afternoon.

The guerrilla leader said he would soon establish a broadly based government after consulting with all parties. In the meantime, he said, an interim administration that has been running the guerrilla-controlled area of southwest Uganda for several months will administer the Kampala area.

Mr. Museveni warned, according to a radio broadcast, that the "liberation of Kampala" did not mean an end to the war. The Associated Press reported from Nairobi. He said that thousands of poorly trained soldiers from "previous regimes" were still at large and demanded that they be disarmed. Soldiers loyal to the failing military regime still control the northern part of the country.

Eriya Kategaya, a guerrilla spokesman in Nairobi, said at a news conference: "We regard ourselves as the government of Uganda. We are in effective control." He said the guerrilla organization was ready to talk to General Okello "as a person," not as a government official. The general came to power after the army overthrew President Milton Obote in July.

Mr. Museveni accused government troops of committing genocide and said the culprits would be punished. He also announced the suspension of foreign exchange dealings. [The U.S. State Department said that about 150 Americans in Uganda would be evacuated by aircraft to Kenya beginning Tuesday and Wednesday, The Associated Press reported from Washington.]

Mr. Museveni, a former defense minister, was to have become vice chairman of the ruling council under a peace pact signed with General Okello in Nairobi on Dec. 17. But the guerrillas and the military (Continued on Page 3, Col. 4)

Conservatives in Congress have proposed military and economic aid for Mr. Savimbi's group, the National Union for the Total Independence of Angola, or UNITA. The White House has talked of a possible covert military program for the Savimbi group. Mr. Shultz indicated that he believed that for the diplomatic efforts to succeed, the United States had to have "a strong position," meaning a show of support for Mr. Savimbi.

A congressional aide said Mr. Shultz had been looking into the possibility of covert military aid with the intelligence committees in Congress and had found considerable opposition from the committee leaders.

Congressional aides said Mr. Shultz believed that it was important for Mr. Savimbi to receive strong public backing in Washington, even if he left without any aid commitments.

Mr. Savimbi's insurgents are supported militarily and economically by South Africa. One of the objections raised in Congress to aid to Mr. Savimbi is that it would be regarded as backing for Pretoria.

Mr. Shultz acknowledged that he opposed legislation extending military or economic aid to the Angolan insurgents because it would not promote a diplomatic solution.

"I think it would be well," Mr. Shultz said, "if Congress expressed itself in a general way, without any particular, precise commitment, but just in the general nature of what they support — including support for seeing a sensible settlement."

Washington would lead to the independence of South-West Africa, also known as Namibia, and the withdrawal of 30,000 Cuban troops from Angola along with the pull-back of South African forces from South-West Africa. South Africa controls South-West Africa in defiance of United Nations resolutions for its independence.

Such an accord, as envisaged by Washington, would lead to the independence of South-West Africa, also known as Namibia, and the withdrawal of 30,000 Cuban troops from Angola along with the pull-back of South African forces from South-West Africa. South Africa controls South-West Africa in defiance of United Nations resolutions for its independence.

Mr. Shultz has been seeking an effective way to show support for Mr. Savimbi's rebel group — which the administration recently called "a legitimate nationalist movement" — without compromising U.S. efforts to achieve a diplomatic solution between Angola and South Africa.

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Violent Death at a South African Funeral Youths with knives and clubs chased and killed a black teen-ager whom they accused of taking part in the slaying of a community leader, Ampie Mayisa, at Leandra near Johannesburg. The violence occurred at Mr. Mayisa's funeral. Meanwhile, a group of political fugitives from South Africa was deported from Lesotho in exchange for Pretoria lifting a three-week blockade. Page 5.

U.S. Aides Favor A Distancing From Marcos

WASHINGTON — A consensus has developed in the Reagan administration that the departure of President Ferdinand E. Marcos is critical to a non-Communist future for the Philippines and American interests in that country. This widely held view was made clear explicitly or indirectly in interviews last week with key officials from the White House, State Department, Pentagon and intelligence agencies.

The administration has decided, however, not to push Mr. Marcos from power by direct means, although that was considered by some officials. The decision was also taken not to make public attacks on him, although some officials have come close to this.

Instead, the policy is to distance the United States from its old ally by publicly questioning Mr. Marcos's statements that he is seeking to effect the economic and military changes the United States has sought. Another element of the strategy is waiting, the officials said. Very soon, they said, they expect that Mr. Marcos's health will force him to withdraw from the scene.

The public position of the White House and of other administration officials is that they will work with the winner of the presidential election Feb. 7, whoever that may be. Privately, however, the key officials involved say that they expect Mr. Marcos to win, and they maintain that he must go if the necessary changes to get the country back on its feet are to be put into effect.

By the accounts of all the officials interviewed, President Ronald Reagan, Secretary of State George P. Shultz, and Defense Secretary Caspar W. Weinberger have approved the policy of distancing expressed by their subordinates. The president and the two cabinet officers were not actively involved in

the policy discussions, and all three went out of their way not to announce the change. Albert R. Brashear, a White House spokesman, denied Saturday that there was any such consensus. He said: "We want to see the process of reform carried out across the board. We want to see free and fair elections. It's the process that is important."

All the officials interviewed said that Mr. Reagan had been briefed regularly about events in the Philippines and on the policy line to be followed. Several of them, however, noted that Mr. Reagan's role had been essentially passive in policy formulation, which they thought might reflect his longstanding concerns about undercutting allies.

Administration officials fear U.S. identification with the Marcos government at a time of growing anti-Marcos sentiment in the Philippines. Specifically, they worry that Mr. Marcos is unwilling to introduce what the United States considers to be needed changes, and that his moderate opponents might unite with Communists in opposition to him.

Either eventually could jeopardize American bases there, which are considered vital to U.S. power in the Asian and Pacific areas. U.S. officials have urged Mr. Marcos to stem an economic downturn by taking steps to reduce corruption and break up monopolies, many of which are believed to be controlled by figures close to the Marcos family. The administration has also asked for greater efficiency in the military, with promotions based on merit.

Although administration officials have decided that it would be in the best interests of the United States (Continued on Page 5, Col. 5)

Thatcher Says She Is Unimpaired by Crisis

By Steve Lohr New York Times Service

LONDON — Prime Minister Margaret Thatcher, whose embattled Conservative government has lost two Cabinet ministers this month, said Sunday that the recent resignations and the continuing crisis would not undermine her government's effectiveness and she declared her intention to run for a third term in office.

Mr. Heseltine supported the European bid as essential for European collaboration in defense industries and to escape dependence on U.S. suppliers. The Thatcher government's position has been that as a private company Westland and its shareholders should decide its future.

Paul Channon, deputy minister at the Department of Trade and Industry, was appointed Saturday to succeed Mr. Brittan.

In the televised interview Sunday, Mrs. Thatcher blamed the continuing political crisis on Mr. Heseltine and his renegade stance in not conforming to the majority decision of the cabinet. Of the



Paul Channon

pressure within the Conservative Party. He resigned Friday, a day after Mrs. Thatcher admitted in the House of Commons that Mr. Brittan had authorized and engineered the leak of a confidential govern-

ment letter on Jan. 6 that served to undermine Michael Heseltine, who resigned as defense secretary Jan. 9.

The financially troubled helicopter company has become the object of two rival rescue bids. The first came from the United Technologies Corp. of the United States and Fiat SpA, while the second came from a consortium of five European companies.

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Westland affair, she said, "It was a comparatively small thing which would never have assumed this proportion but for the fact that we had that thing — one member not playing as a member of the team."

In an editorial Sunday, the Observer newspaper said that Mrs. Thatcher's handling of the Westland affair "raised growing doubts over, at best, the competence and, at worst, the integrity of the prime minister herself."

A poll by the Harris Research Center, published in the Observer, found that 43 percent of those surveyed think Mrs. Thatcher should resign, while 48 percent say she should not.

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Qadhafi Sails To 'Confront' U.S. 6th Fleet

By Judith Miller New York Times Service

MISURATA, Libya — Colonel Moamer Qadhafi boarded an armed patrol boat Saturday and sailed into the choppy waters of the Gulf of Sidra to stage what the Libyan leader called a "confrontation" with the U.S. 6th Fleet.

The colonel, wearing a royal blue jump suit trimmed in emerald green, waved his swagger stick at about 20 foreign reporters who had been taken to Misurata, 120 miles (194 kilometers) east of Tripoli, to witness his defiance of U.S. air and naval maneuvers off the Libyan coast.

"I am sailing out along parallel 32.5 to stress that this is the Libyan border," Colonel Qadhafi said, referring to Tripoli's claim that the entire 150,000-square-mile (388,000-square-kilometer) Gulf of Sidra, between Misurata and Benghazi, is Libyan territorial waters.

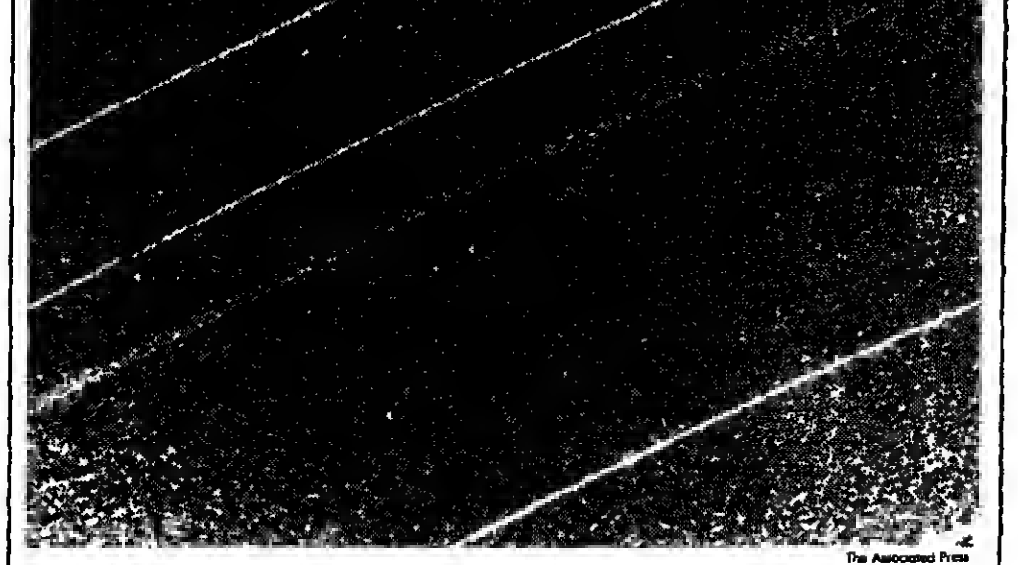
"This is the line of death where we shall stand and fight with our backs to the wall," he said through an interpreter.

The Libyan patrol boat was last seen by reporters steaming northeast into the gulf. [Libyan television showed Colonel Qadhafi stepping back ashore in Misurata later Saturday afternoon to the cheers of the assembled sailors. The Associated Press reported from Tripoli.]

The United States had informed Tripoli International Airport on Thursday that U.S. combat planes based on the aircraft carriers Saratoga and the Coral Sea would be conducting exercises off the Libyan coast for the next week.

Washington has said the maneuvers are part of a demonstration of "U.S. resolve" to operate in international waters and airspace. Colonel Qadhafi said Saturday that the United States "has no right to stage military maneuvers" in this area because it contains Libyan oil rigs, gas and oil fields and other "economic interests."

"This confrontation is beyond parallel 32.5 in the Libyan economic zone and Libyan continental shelf, which stretches to the beginning of the Red Sea." (Continued on Page 5, Col. 7)



Spacecraft Finds a 10th Ring Around Uranus The Voyager-2 discovered a 10th ring of particles orbiting Uranus as it hurtled toward the planet for its first close-up exploration. Scientists reported that the spacecraft also detected a 15th moon, a surprising tilt in the planet's magnetic poles and a bright halo like that of Jupiter and Saturn. Page 3.

Senate Candidate Indicted in California

By Judith Cummings New York Times Service

LOS ANGELES — Representative Bobbi Fiedler, seeking to oppose Alan Cranston for his U.S. Senate seat this year, has been indicted by a Los Angeles County grand jury on a charge of offering an opponent \$100,000 to drop out of the Republican primary.

After the charge was made public Friday, Ms. Fiedler said, "I have done nothing wrong."

Ms. Fiedler was indicted along with Paul Clarke, a longtime political aide and close friend, after an investigation that was begun on the basis of information provided by state Senator Ed Davis, who was considered to be her closest rival in the primary next June.

Mr. Davis, a former Los Angeles police chief, told a local prosecutor that "an intermediary representing the Bobbi Fiedler campaign" had contacted one of his aides offering \$100,000 to pay off Mr. Davis's campaign debts in return for his withdrawal. Mr. Davis is still in the race.

The indictment also was based in part on a meeting between Ms. Fiedler and Mr. Davis's campaign manager, who was secretly wearing a recording device. The Washington Post reported. In that meeting,

Ms. Fiedler insisted that she wanted no "quid pro quo" for helping to retire her rival's campaign debts. One of Ms. Fiedler's supporters said Saturday.

News of the indictment came in the early stages of what is developing into a tough contest for the seat held by Mr. Cranston, 71, the three-term Democratic incumbent. Eleven Republicans either have announced they will seek the party's nomination or are believed close to doing so. None of the primary candidates are believed to have a commanding edge, and Mr. Cranston is viewed as having a comfortable lead over all of them.

At a news conference Friday, Ms. Fiedler and Mr. Clarke denounced their indictments as politically motivated but refused to answer questions about the alleged bribe. "This has got to be one of the greatest political dirty tricks of all time," Mr. Clarke said.

Ms. Fiedler asserted that she would continue to campaign for the nomination.

Ms. Fiedler and Mr. Clarke are scheduled to be arraigned in Los Angeles on Monday. They are charged with violating a section of the California election code that

(Continued on Page 5, Col. 5)



Colonel Qadhafi aboard a patrol boat before sailing into the Gulf of Sidra: 'This is the line of death where we shall stand and fight.'

Analysts Say Dollar Is Near Its Low, Predict a Rise

By James Crute International Herald Tribune

PARIS — The dollar, which has fallen an average of 16 percent since the Group of Five industrial nations agreed in September to devalue it, is at or near its bottom and could strengthen this year, according to currency analysts and economists surveyed in recent weeks.

Since their agreement at New York's Plaza Hotel on Sept. 22, the five — the United States, Japan, West Germany, Britain and France — have helped knock an already weakening dollar lower through a concerted policy of central bank "jawboning" and direct intervention in currency markets.

But according to analysts, the dollar this year will be buoyed by improving U.S. economic performance relative to its principal trading partners — a pickup that promises to be led by export growth in

said Frederick Schultz, vice chairman of the Federal Reserve Board under President Jimmy Carter and now a senior economic adviser to Drexel Burnham Lambert in New York. "Our economic prospects are still better than Europe's and our long bonds still offer a substantial rate differential over Japan. That will remain a key to the dollar's prospects this year."

Rimmer deVries, senior vice president and chief economist of J.P. Morgan & Co. of New York, says that the key to a weaker dollar in 1986 would be better economic growth among the chief U.S. trading partners, which would act to reduce foreign demand for dollar investments.

They agree that with the elements leading to a strong dollar coming into place, it will not be easy to keep a lid on the currency. Significantly, they note, this up-

"But I don't see that happening, not this year anyway," he said. Most analysts surveyed differ on the specifics and timing of the dollar's likely course this year. Even the staunchest dollar bulls do not see the currency resuming its strength at anywhere near pre-record levels.

Analysts said they foresaw the dollar ending the year at or near its current levels of 2.40 Deutsche marks, 200 yen and 7.50 French francs.

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FRANCE ITALY TURKEY SYRIA LIBYA EGYPT ALGERIA

NEWS ANALYSIS

the second half — and by continuing high interest-rate differentials on dollar investments.

These upward pressures will be reinforced by normal, built-in demand for the currency in its traditional "safe haven" and international financing roles, they say, and are unlikely to be seriously challenged by an increasingly fractious G-3 partnership.

"Everyone is still buying dollars; it's still the currency of the world,"

Vertical sidebar containing various advertisements and notices. Includes 'Artists to Visit', 'TO CONVERSION', 'ALTO TARI', 'MERCEDIS', 'EPA DOT', 'DAWAI TI', 'DOT - EPA', 'OCEANIC', 'TOS TAX FILL', 'AUTOMOBILES', 'TRAORDINAIRES', 'RO TEAM', 'PAGE 3 FOR MO', 'CLASSIFIED', 'HEAD OFFICE', 'EUROPE', 'LATIN AMERICA', 'UNITED STATES', 'SOUTH AFRICA'.

Soviet Aide In Charge Of Police Is Replaced

By Celestine Bohlen

WASHINGTON Post Service
MOSCOW — The Soviet interior minister, General Vitali V. Fedorchuk, has been moved out of his job to await a "new appointment," Tass has reported.

General Fedorchuk, 67, had held the post for three years. He is a former head of the KGB and was a close associate of Yuri V. Andropov, the Soviet leader who died in February 1984.

The wording of the Tass announcement Saturday indicated that General Fedorchuk was in good standing with the Communist Party leadership and might be promoted, Western analysts in Moscow said.

The new interior minister is Alexander V. Vlasov, 54, who for the past 10 years has served as a regional first secretary of the party. He has no known police background. The Interior Ministry is responsible for the Soviet Union's uniformed police and prosecutorial functions.

General Fedorchuk, who was head of the KGB in the Ukraine, succeeded Mr. Andropov as chief of the security police in May 1982. Seven months later, Mr. Andropov, in one of his first moves as Soviet leader, moved his old associate to the Interior Ministry, where his duties included a drive against corruption.

General Fedorchuk replaced Nikolai A. Shchokolov, who was implicated in corruption scandals



Vitali V. Fedorchuk

during the last days of Leonid I. Brezhnev's tenure. Mr. Shchokolov was stripped of his party rank and was awaiting trial when he died in December 1984, apparently of a self-inflicted gunshot wound.

A new and broader campaign against corruption has been started in recent months. Rumors have circulated throughout the government of officials being dismissed and even arrested for misdeeds.

Mikhail S. Gorbachev has made sweeping personnel changes in government, in the party and in the Politburo since he became general secretary of the party in March 1985.

According to a tally by one Western analyst, 19 of 59 ministers have been changed since then, as well as 45 of 159 regional party first secretaries and four of 14 party first secretaries in the Soviet republics.

Grishin Still in Politburo

Viktor V. Grishin, who was removed last month from his post as leader of the Moscow city Communist Party, is still a member of the Politburo. The Associated Press reported Saturday from Moscow, quoting a Soviet television report.

KGB Defector to U.S. Is Called Very Valuable

By Philip Shenon

New York Times Service
WASHINGTON — A KGB officer who fled the Soviet Union last year may be the most valuable defector to the United States in recent years, congressional sources said Saturday.

The defector is providing information that "is much more important" than that provided by Vitaly S. Yurchenko, the Soviet intelligence official who defected to the West last summer but returned to Moscow in November, a congressional source said.

Another described the defector as a senior officer of the KGB, the intelligence and security agency, who escaped by helicopter last spring from East Germany.

According to that source, the officer was questioned at an American military base in West Germany before traveling to the United States, where he has assumed a new identity.

The Central Intelligence Agency would not confirm the reported defector.

Two of the congressional sources said the CIA had gone to great lengths to keep information about the defector from being disclosed, largely because publicity might have upset the summit meeting in November between President Ronald Reagan and Mikhail S. Gorbachev, the Soviet leader.

Details of the defector were reported in the issue of the magazine U.S. News & World Report that goes on sale next week. The magazine said that the defector was a major general in the KGB.

American law enforcement officials have said that Mr. Yurchenko provided tips that could lead to

numerous arrests of Soviet spies working in the United States.

Ronald W. Pelton, a former employee of the National Security Agency who was reportedly identified by Mr. Yurchenko, is awaiting trial on espionage charges in Maryland.

But there have also been accusations that Mr. Yurchenko was a double agent sent to the United States to disrupt intelligence agencies. He fled from a U.S. intelligence officer at a Washington restaurant in November. After a news conference at which he accused the CIA of kidnapping him, he went home.

The CIA has denied that Mr. Yurchenko was held against his will.

A congressional source who has been skeptical of the value of Mr. Yurchenko's information said Saturday that the newly disclosed official's defector appeared to be legitimate.

The source said the defector had "technical" knowledge and had traveled frequently to Soviet bloc countries but would not elaborate on the defector's responsibilities in the KGB.

Another source said it was possible that the Soviet official was a double agent.

A source close to the situation said it was unclear why the defector's existence had been disclosed to reporters. But that source suggested that intelligence officials may have released the information to blunt a reported proposal to shift responsibility for defectors from the CIA to the FBI.

Such a proposal followed Mr. Yurchenko's return to Moscow.

Freitas Faces Runoff With Soares in Portugal

Reuters

LISBON — Diogo Freitas do Amaral, a rightist, and Mário Soares, the former leftist prime minister, were expected to win the most votes in Sunday's presidential election in Portugal, according to official forecasts Saturday. The two then would face each other in a runoff.

The other two candidates, Francisco Salgado Zenha, a Socialist candidate, and Maria de Lomdes Pintassilgo, a former prime minister, have conceded defeat, their campaign officials told the Portuguese news agency ANOP.

The official election secretariat predicted that Mr. Freitas do Amaral, 44, a former foreign minister and defense minister, would win 46.8 percent of the vote and that Mr. Soares, 61, would receive 25.2 percent.

The election office forecast that Mr. Zenha, who was backed by the Communist Party, would win 21.1 percent and that Miss Pintassilgo would have 7 percent.

Mr. Freitas do Amaral's supporters had hoped that he would gain the 50 percent of the vote needed to win in the first round.

His task will be more difficult in the runoff, where Mr. Soares is likely to pick up a large proportion of his defeated rivals' votes.

All candidates to replace outgoing President General Antonio Ramalho Eanes are civilians. They and other political leaders wel-



Diogo Freitas do Amaral

comed this as a sign that Portugal had fully embraced democratic civil rule since the revolution in 1974.

Mr. Eanes, a hero of the revolution who enjoyed great popularity, won landslide victories in the two last presidential elections in 1976 and 1980, but he cannot immediately run for the office again.

The military Council of the Revolution, which oversaw the transition to democracy after 1974, was abolished in 1982 when the armed forces that toppled the prerrevolutionary rightist dictatorship were made fully subordinate to civil government.

The four candidates in Sunday's election pledged to lead Portugal into an era of progress and stability to coincide with membership in the European Community.

Mr. Freitas do Amaral based his campaign on restoring national conscience, echoing the program of the governing Social Democratic Party, which supported his candidacy.

Of his rivals, Mr. Soares, a veteran Socialist and prime minister three times since 1974, argued he alone had the experience that could guarantee political stability for the nation.

WORLD BRIEFS

Threat to Kill Pope Reported in India

NEW DELHI (Reuters) — Church authorities in the southern city of Madras have received a letter threatening Pope John Paul II during his visit to India next month, the Press Trust of India news agency reported Sunday.

It quoted a spokesman at the archbishop's office in Madras as saying the letter, signed "Peace Panthers," read: "Caution, advise Pope John Paul II not to enter. Otherwise we will shoot him." The church spokesman said the letter had been sent from Calcutta a month ago. W.L. Davaran, the Madras police commissioner, denied that the letter existed, the agency said.

The pope arrives in New Delhi on Saturday for a 10-day tour. His visit to India, which has only 12 million Catholics in an overwhelmingly Hindu population of 750 million, has already drawn criticism from militant Hindu groups who are concerned about alleged church efforts to make conversions.

Peres, in Bonn, Criticizes Europeans

BONN (UPI) — Prime Minister Shimon Peres of Israel arrived Sunday in Bonn for a four-day visit to West Germany after telling Europe that its reluctance to impose sanctions on Libya would cause innocent blood to be shed.

About 60 protesters, including some Palestinians, demonstrated near the Israeli Embassy in the suburb of Bad Godesberg before Mr. Peres arrived. They were protesting Israeli policy towards Arabs in the occupied territories. Police said that there were no incidents and that the demonstration broke up before Mr. Peres left the airport. He had traveled to Bonn from London.

Hussein, Arafat Meet on Peace Efforts

AMMAN, Jordan (AP) — King Hussein of Jordan and Yasser Arafat, the Palestine Liberation Organization chairman, met twice Sunday and planned a third meeting Monday, the PLO announced Sunday. The two leaders reportedly have been under pressure to advance Middle East peace efforts.

Mr. Arafat and nine other PLO officials had lunch with Hussein at his hilltop palace. After a two-hour break, Mr. Arafat returned to meet alone with the king.

There was no description of the meeting released by either the PLO or by the official Jordanian news media. The PLO, however, indicated that a third meeting was planned.

Karmal Urges U.S. to Halt Rebel Aid

KABUL, Afghanistan (Reuters) — President Babrak Karmal urged the United States on Sunday to stop aiding anti-government guerrillas if Washington wants an end to the six-year war between them and his Soviet-backed government.

Mr. Karmal told Western reporters on a rare visit to Afghanistan that the United States, which last month said it would help guarantee any negotiated settlement to the war, also would have to pressure Pakistan into signing a peace settlement with Kabul.

He said some Soviet military advisers might stay in Afghanistan, even if a settlement were reached in UN-sponsored peace talks in Geneva, if outside interference in Afghanistan's affairs continued.

U.S. Softens Farm Foreclosure Plan

WASHINGTON (NYT) — The Farmers Home Administration has said that it would scale back and soften a program it announced in December to send foreclosure notices to thousands of U.S. farmers who owe the government a total of \$6 billion.

Vance L. Clark, the agency's administrator, said Friday that the original notices had been rewritten "in order to reduce some of the fear this thing has caused." The revised notices are to be mailed to 27,000 farmers who are delinquent in their payments to the agency by three years or more.

Initially the notices were to have been sent to 80,000 farmers who were behind in their payments by more than one year and \$100. Mr. Clark said the agency had prepared a second, "more polite" letter for 38,000 other borrowers with lesser financial troubles. He said both were to be mailed Feb. 10, pending the outcome of a lawsuit in U.S. District Court in North Dakota, where farmers are seeking to stop the agency from moving ahead with the foreclosure notices.

4 Die, 24 Missing in Chilean Explosion

LIQUIQUE, Chile (UPI) — Explosions at Chile's largest bomb factory have killed as many as 28 people and injured 11, police said. Workers recovered four bodies, and officials said 24 employees of the plant were missing and presumed dead after the explosion Saturday in a part of the Cardoen armaments factory where cluster bombs are armed.

Julio Rodriguez, spokesman for Cardoen Industries Ltd., owner of the weapons factory, said the explosion occurred Saturday during production of the company's 500-pound (225-kilogram) cluster bomb.

He said the company had no information about the cause of the blast at the factory, about 1,000 miles (1,750 kilometers) north of Santiago. A police spokesman said the explosion appeared to be accidental.

For the Record

Israel's first ambassador to Spain will be Samuel Hades, Israel's official representative there, the government announced Sunday in Jerusalem. Spain's ambassador to Israel will be Israel Pedro Lopez Aguirre, a career diplomat. (UPI)

Irish police raided three farms Sunday and seized 140 guns and a large quantity of ammunition they believed was intended for the Irish Republican Army in Northern Ireland. The farms were in the counties of Sligo and Roscommon. (UPI)

Jesse-Claude Davister, Haiti's president for life, in an apparent bid to stem criticism of his human rights record, announced Saturday the arrests of three men charged in the murders of three students during protests in November. (UPI)

President Mobutu Sese Seko of Zaire has ordered the release of a Belgian socialist militant, Ronald van den Bogart, 38, whose 10-year prison sentence for alleged subversion has strained ties between the nations, the Belgian Foreign Ministry said Sunday. (Reuters)

General Abdul Rahman Swarathullah, Sudan's military ruler, promised Sunday in Khartoum to withdraw the army from the government after elections in April. (Reuters)

DOONESBURY



Murdoch Fires 6,000, Prints at New U.K. Plant

United Press International
LONDON — Rupert Murdoch produced his two Sunday newspapers in Britain at a new computerized plant, defying a strike by 6,000 production workers.

Mr. Murdoch dismissed his print, packaging and distribution employees on Friday. The action halted production Saturday of his daily newspapers, The Times and The Sun, in what industry analysts saw as the first stage in a showdown with traditional print unions over computer technology.

Mr. Murdoch printed his two Sunday newspapers, The Sunday Times and The News of the World, at the new plant Saturday night.

"We're a little late tonight," Mr. Murdoch said. "We had a computer backup. We were a little late starting. But when we get a bit of practice we will get them out."

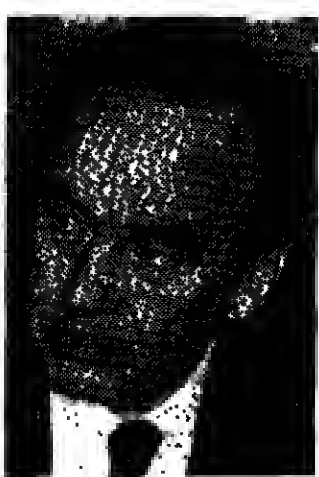
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Rupert Murdoch

workers and nonunion labor to operate the £100-million (\$140-million) plant.

The building, equipped with the latest generation of high-technology printing equipment, has spiked iron gates and high walls topped with barbed wire.

Journalists on the News of the World, which has a circulation of more than five million, voted overwhelmingly to move to Wapping for an additional £2,000 pounds each a year in salary.

Arthur Brittonden, a Murdoch spokesman, said editorial employees on the Sunday Times would remain at their central London offices.

Battle Is Just Beginning
The strike against News International is viewed as just the start of a battle this year between unions and newspaper publishers determined to introduce cost-saving computer technology. The New York Times reported from London.

"Three new national dailies are scheduled to appear this year, led by Today. Its publisher, Eddie Shah, has built a modern printing plant that requires a fraction of the workers employed in traditional plants.

The pressure from the newcomers is leading other newspaper publishers to modernize their operations despite union resistance.

Express Newspapers Co., which publishes The Daily Express, The Sunday Express and The Daily Star, said Friday it needed to cut a third of its 6,000 workers to survive.

Conrad M. Black, the Canadian financier who recently bought The Daily Telegraph and The Sunday Telegraph, is also expected to push for job cuts.

2 Legion Recruits Sentenced to Life For Killing Arab

Reuters
MONTAUBAN, France — Two recruits in the French Foreign Legion have been jailed for life for killing a young Arab whom they stabbed and threw from a speeding train.

The court found Marc Béani, 22, and Anselmo Eviro Vidal, 28, guilty of murder. A third defendant, Xavier Blondel, 26, was found guilty of causing grievous bodily harm and sentenced to 14 years in prison.

The three were found guilty of killing Habib Grimzi, a 26-year-old Algerian, as they took a train in November 1983 on their way to start training with the Foreign Legion.

Public Prosecutor Jean-Louis Brignolles had asked for life for all three, saying the case was a test of the law's attitude toward racism.

"This is racism and barbarism as practiced everywhere and by everyone," he said.

The three admitted killing Mr. Grimzi, but their lawyers argued that they had acted in a general climate of racism and could not be held individually responsible.

U.S. Sees 'No Change' In Soviet Stance on SDI

By John Tagliabue

New York Times Service
BONN — A senior U.S. official has asserted that there has been "no change" in the Soviet Union's opposition to research for President Ronald Reagan's space-based missile defense plan.

U.S. officials recently have shown interest in statements by Soviet leaders that repeated Moscow's fundamental opposition to the plan but made no mention of research.

Soviet officials had said previously that progress in arms control was possible only if the United States renounced all aspects of the space defense system, which is known formally as the Strategic Defense Initiative.

But Mikhail S. Gorbachev did not specifically mention a ban on research when he announced new arms proposals on Jan. 15, the eve of the resumption of arms control negotiations in Geneva.

The Soviet leader said his plan would be feasible if both superpowers "mutually renounce the development, testing and deployment of space strike weapons."

Georgiy M. Korotchenko, the Soviet first deputy foreign minister, said five days later that the Soviet Union was not seeking a ban on "basic research" but a ban on research that was "goal-oriented or directed specifically toward designing or developing a weapons system."

Soviet statements usually had included the more general phrase "including scientific research," the U.S. official said.

The official said Friday, however, that "those three words have reappeared in Geneva." He said the

Gemayel Asks Assembly to Discuss Pact

United Press International
BEIRUT — President Amin Gemayel of Lebanon said Sunday that a Syrian-mediated peace agreement that he has rejected would be referred to parliament.

Prime Minister Rashid Karami objected. He said Mr. Gemayel should take a "positive position" by approving the agreement.

A presidential statement called a cabinet meeting for Monday to send the agreement to the National Assembly. The cabinet has not met since November. If it could not sit Monday, Mr. Gemayel said he would present the accord directly to the president of the chamber.

The agreement was signed Dec. 28 by Elie Hobeika, leader of the Christian militia, the Lebanese Forces, and by leaders of two Muslim militias. It calls for a cease-fire and reforms to give Lebanon's Muslim majority more political power.

Mr. Gemayel, a Maronite Christian, rejected the agreement and helped to depose Mr. Hobeika. Hundreds died in mid-January in the conflict between Christian factions.

Syria reacted by ordering pro-Syrian militias to exert pressure on Mr. Gemayel's stronghold at Bikfaya, near Beirut.

Mr. Karami, a Sunni Moslem, said Sunday that "submitting the agreement to parliament in this manner is out of the question."

The assembly is Christian-dominated, and would probably amend the peace accord. Syria wants the agreement to be implemented by Mr. Gemayel without reference to parliament.

Aden Vows To Improve Arab Links

Reuters
ADEN, South Yemen — South Yemen will continue its policy of improving relations with other countries in the Arabian peninsula, Foreign Minister Abdul Aziz Dali said after meeting here Sunday with the Kuwaiti ambassador.

Mr. Dali made the pledge as Aden's leaders assessed the damage caused by 12 days of fighting, which led to the overthrow of President Ali Nasser Mohammed.

South Yemen's interim president, Haydar Abu Bakr Attas, also met the Kuwaiti ambassador, Vladislav P. Zhukov, on Sunday to discuss ways to stabilize the country, Aden Radio said.

Mr. Attas, who had been the prime minister under Mr. Nasser Mohammed, returned from Moscow on Saturday. Mr. Attas described the Soviet Union's support as important in helping to develop the nation, the radio said.

The Soviet Union, apparently taken by surprise by the conflict in South Yemen, its only ally in the Arabian peninsula, has tried to mediate between the two warring Marxist factions of the ruling Yemen Socialist Party.

Meanwhile, a Palestinian group represented in South Yemen denounced what it said were moves by anti-revolutionary forces on the border with North Yemen.

The group, the Democratic Front for the Liberation of Palestine, did not elaborate, but it apparently was referring to a report that South Yemenis opposed to Marxist rule in the country.

There was still no firm word on the whereabouts of Mr. Nasser Mohammed, who was reported earlier by sources in North Yemen to be in his home region of Abyan, east of Aden.

In North Yemen, diplomatic sources said a radio station apparently broadcasting from Abyan said Mr. Nasser Mohammed had given his opponents until Wednesday to surrender or face a counter-attack.

In Aden, bulldozers Sunday removed charred tanks from the streets as authorities organized mass burials for the victims of the power struggle.

Unofficial estimates said up to 10,000 people may have died in the city of 350,000. Government offices, banks and schools stayed shut Sunday, but shops were open.

In Djibouti, British officials said Sunday that South Yemen had banned more evacuations of foreigners by sea. They said the approximately 1,000 who remain, most of them Indian construction workers, had been told to leave by air.

More than 6,000 foreigners from about 50 countries had arrived in Djibouti in the past week.

The Aden strip was closed after fighting began Jan. 13. Officials at Djibouti said Sunday they had not been notified of its reopening, despite earlier reports that it was in use. A scheduled Air Djibouti flight to Aden on Sunday was canceled.

Libyan television said Saturday that Mr. Nasser Mohammed had telephoned the Libyan leader, Colonel Moamer Qadhafi, pledging South Yemen's support to Libya in the face of U.S. actions.

Sierra Leone Inauguration
Agence France-Press
FREETOWN, Sierra Leone — Sierra Leone's new president, Major General Joseph Saidu Momoh, pledged Sunday to enact radical economic reforms and establish a medical system accessible to all at an inauguration ceremony attended by an estimated 40,000 people.

Mr. Momoh, 49, was made secretary of the Central Committee, one of a handful of powerful party secretaries, at a two-day plenary session of the Central Committee in Sofia on Friday and Saturday, the agency said.

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WORLD BRIEFS

Pope Reported in India - Church authorities in the southern state of Kerala...

Criticizes European - Minister Shimon Peres of Israel arrived Sunday...

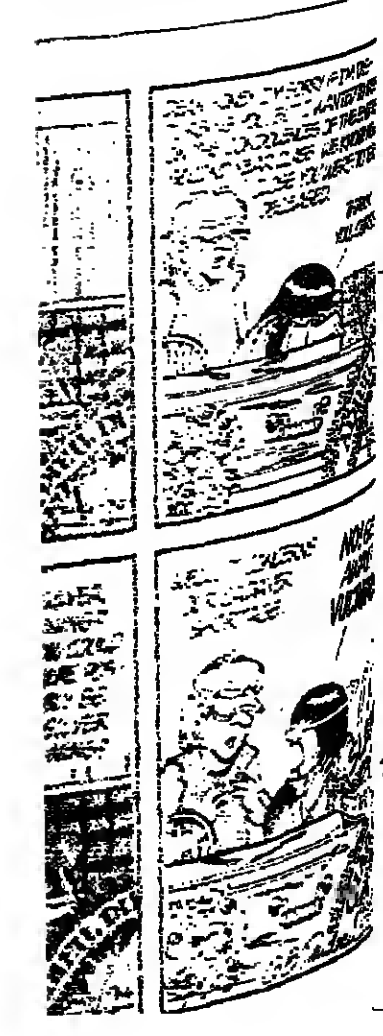
Lat Meet on Peace Efforts - King Hussein of Jordan and Yasir Arafat...

U.S. to Halt Rebel Aid - (Reuters) - The United States will halt aid to rebel forces...

Farm Foreclosure Plan - (AP) - The Federal Reserve Administration's plan...

Explosion in Chilean - (AP) - A massive explosion in Chile...

rd - (AP) - A road in the United States...



AMERICAN TOPICS



MOVE OVER - One of four head of cattle that escaped from a stockyard in San Antonio, Texas, piled headfirst into a van...

Alumnae Reminisce About Latin Quarter

The Latin Quarter, which had more feathers, plumes, ruffs, stonework and sequins than any other Manhattan night spot...

What Life Is Like Behind the Throne

Eight ranking staff members for every president since Dwight D. Eisenhower got together for a public television forum...

Notes About People

When Patrick J. Buchanan went to work as White House communications director in early 1985...

What Life Is Like Behind the Throne

Eight ranking staff members for every president since Dwight D. Eisenhower got together for a public television forum...

New Pleas For Tax Hike Are Rejected By Reagan

By Jonathan Fuerbringer - WASHINGTON - Responding to new calls for a tax increase from some Republican and Democratic leaders in Congress...



Bob Packwood

Mr. Packwood's committee will start hearings on a House-passed tax bill this week. The committee held a one-day retreat to consider the issue.

The president did not miss a day last week in rejecting the idea of a tax increase. But congressional leaders, including the Senate Republican leader, Robert J. Dole...

Members voted overwhelmingly against using the tax bill passed by the House last December or the Reagan plan as a starting point. Instead, they asked Mr. Packwood to develop a proposal with the ranking minority member, Russell B. Long...

Mr. Packwood said four or five committee members wanted to use the legislation to raise taxes to reduce the deficit; three other sources said about half of the 16 or 19 senators present wanted higher taxes...

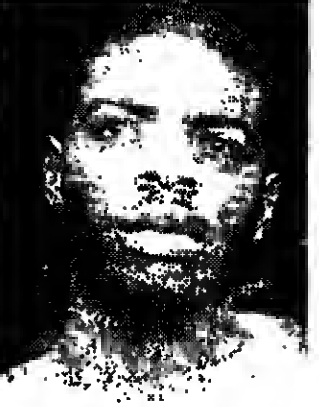
Voyager Observes Odd Tilt to Uranus Approach Also Reveals 15th Moon, Strange Aurora

By John Noble Wilford - PASADENA, California - The Voyager-2 spacecraft has sped by distant Uranus for the first close-up exploration of the solar system's third-largest planet.

The bright halo of Uranus was not, as had been thought, an aurora like the Northern Lights on Earth. The streaks appeared to be evidence of extensive meteorite impacts that exposed the ice underlying the generally gray surfaces of the moons.

N.Y. Student Acquitted in Mugging

By M.A. Farber - NEW YORK - A 19-year-old Cornell University sophomore, not guilty of assaulting and trying to rob the officer, Lee Van Houten, last June 12.



Jonah Perry

Honduran Is Expected to Rely on Army and U.S.

By James LeMoyné - Tegucigalpa, Honduras - A wide variety of political commentators here are predicting that José Azcona Hoyo, who takes office Monday as president of Honduras...



José Azcona Hoyo

According to foreign and Honduran political analysts, the army has kept control of foreign affairs by choosing the foreign minister...

Gordon MacRae, 64, Dies of Cancer; Starred in the Movie of 'Oklahoma!'

By Peter B. Flint - NEW YORK - Gordon MacRae, the singer and actor who starred in the movie versions of Richard Rodgers and Oscar Hammerstein 2d's benchmark musicals 'Oklahoma!' and 'Carousel'...



Gordon MacRae

Mr. MacRae had been undergoing treatment for cancer of the mouth and jaw as well as pneumonia. The tall, athletic actor and singer made four genial, old-fashioned musical films with Doris Day...

Louis Hartz, 66, Professor of Government - NEW YORK (NYT) - Louis Hartz, 66, a longtime professor of government at Harvard University...

Ugandan Rebels Seize Capital - (Continued from Page 1) government had accused each other of violating the Nairobi accord, which was aimed at ending decades of bloodshed in Uganda.

Kasparov and Karpov Agree on a Rematch - MOSCOW - Garry Kasparov, the world chess champion, and Anatoli Karpov, the former champion, have agreed to postpone their rematch until July or August...

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INTERNATIONAL Herald Tribune

Published With The New York Times and The Washington Post

Going After the Killers

If other nations cannot catch terrorists or if they refuse to surrender them, why should Americans not snatch suspects wherever they can and bring them to justice in the United States? That question no longer sounds far-fetched. Violence against Americans and the failure of other nations to take it seriously have aroused Washington's interest in every conceivable countermeasure. Prudence and justice argue for striking directly at guilty terrorists. Why not take them where one can?

The main obstacle is other nations' rights and sensibilities. Governments that put a much lower priority on arresting terrorists may well regard kidnapping by American agents as a crime. They also cherish their sovereignty and insist on making their own choices about whom to arrest and to extradite. Some may also fear retribution by terrorists or remember that the United States itself has sometimes refused to deliver fugitives under extradition treaties that exclude crimes labeled "political."

Still, while other nations are unlikely to give advance approval, some might quietly applaud or even assist in specific arrests of properly charged fugitives. American judges traditionally have not inquired about how a suspect is brought before them, only whether he has been duly charged. America's known regard for defendants' rights, and President Reagan's rejection of reckless retaliation against innocents abroad, are strong arguments for trying to

bring some fugitives to account. Probably the strongest argument for unilateral action is the failure of international efforts to punish either terrorists or their sponsors. America's European allies, having returned to join in economic sanctions or airline groundings, would find it harder to object to discreet U.S. efforts at self-protection. Responsible Americans are not talking about a shoot-out on a busy Paris street. They do, however, want to warn nations that harbor the likes of Mohammed Abbas that they risk the humiliation of having him snatched away. That alone might keep him and others in distracted flight.

Mr. Abbas is under federal indictment charged with plotting the Achille Luro hijacking, which included the cold-blooded murder of a disabled American. Mr. Abbas was caught when American planes intercepted the hijacker's escape plane, but he was rashly released, first by Italy and then by Yugoslavia, despite a strong American showing that he was extraditable. He is a prime candidate for capture if U.S. agents can manage it. Such snatches are no substitute for sustained anti-terrorist campaigns, including infiltration of suspect groups. They are no substitute for joint action when that can be negotiated. But they can bring some murderers to justice and relieve the pent-up American frustration that might otherwise provoke truly rash action.

—THE NEW YORK TIMES

Up the IDA Ante Now

In the poorest parts of the world, falling interest rates and oil prices make little difference. The countries at the bottom of the heap still need openhanded aid — and the Reagan administration still offers a tight fist.

The International Development Association, a World Bank affiliate, makes 50-year, interest-free loans to countries most in need. It does not consider lending unless a country's per capita income is under \$790 a year. There are plenty of those. In its 25 years the IDA has loaned \$37 billion to some 90 countries. Its funds have been replenished seven times by the United States and some 30 other nations — including two, South Korea and Colombia, that once got IDA aid themselves. Donors meet in Paris this week to start negotiating an eighth infusion. How generous will it be?

America sets the pace. In the Reagan years, that has meant parsimony. By longstanding agreement, Washington contributes a quarter of the total. The Reagan administration's first move was to stretch the Carter administration's commitment to the third replenishment over four years instead of three, thus reducing

the yearly contribution. Then, three years ago, when the other major backers and the agency itself favored a replenishment of at least \$12 billion, Washington held out for \$9 billion.

Fifteen other donors, still seeing a greater need, put an extra \$1.2 billion into a special fund for African countries, pointedly insisting that nothing be spent on American goods or services. Last year Congress took the lead and voted a \$225 million American contribution to the Africa fund, ordering a first payment of \$75 million by Dec. 31. The administration, citing the new deficit reduction law even before it took effect, has paid nothing yet.

So negotiations for the next round of funding open on a discouraging note. The IDA needs at least \$12 billion in the next three years. The Reagan administration has not committed itself to any sum but has indicated that it thinks another \$9 billion is enough. That would only invite further embarrassment, since other donors and Congress are willing to put up more. What virtue is there in starving the poorest of the poor?

—THE NEW YORK TIMES

Good News From Ulster

There is good news from Ulster. Moderates scored some gains in the by-elections held on Thursday, and the leaders who called for a massive vote to protest the new Anglo-Irish agreement were disappointed. That treaty sets up a bi-national commission to consider political, legal and security matters in the six counties of Northern Ireland. The commission is a forum, not a ruling body, and the treaty does not change the status of Northern Ireland as a part of the United Kingdom. The agreement has the strong support of parliaments in Britain and Ireland, but in the North cooperation has been opposed both by Protestants who want no dialogue with Dublin and by Catholics who do not recognize British sovereignty.

The by-elections were precipitated by the protest resignation, from the British Parliament, of 15 Protestant members from Northern Ireland. Their leader, Ian Paisley, announced that the new elections would let citizens demonstrate their "universal and furious" toward the agreement, and he called for a massive vote turnout. Meanwhile, Sinn Fein, the political arm of the Irish Republican Army, fielded candidates in four districts and

they, too, opposed the treaty. In the middle, also running in four districts, were moderates of the Social Democratic and Labor Party. It has Protestant and Catholic members and strongly supports both the treaty and continued cooperation between Dublin and London.

Mr. Paisley did not get his massive protest vote. The Unionist parties received, on average, about the same number of votes as in the last elections in 1983, and Mr. Paisley himself lost supporters. In one district the SDLP won a seat from the Unionists. Catholics, in general, voted for moderation over protest by a wide margin. Sinn Fein candidates lost a quarter of their votes measured against 1983, and the SDLP gained almost all of them.

None of this signals a miracle in Ulster. Fourteen of the 15 Unionist candidates who opposed the treaty were returned to Parliament. But the turnout was not remarkable, and the Catholic move away from candidates conducting violence is heartening. The long-range goal of the Anglo-Irish treaty is reconciliation. Prospects for achieving it are a little brighter.

—THE WASHINGTON POST

Other Opinion

A Watergate Pattern in London

Watergate started with a pretty trivial offense — a clumsy attempt at an office break-in by five not very competent hired burglars. The damage was done not by what happened at the Democratic national committee headquarters in the summer of 1972 but by what followed. The pattern has been repeated in the sorry saga of Westland. The issue is no longer what originally occurred; it is the government's (and especially the prime minister's) efforts to con-

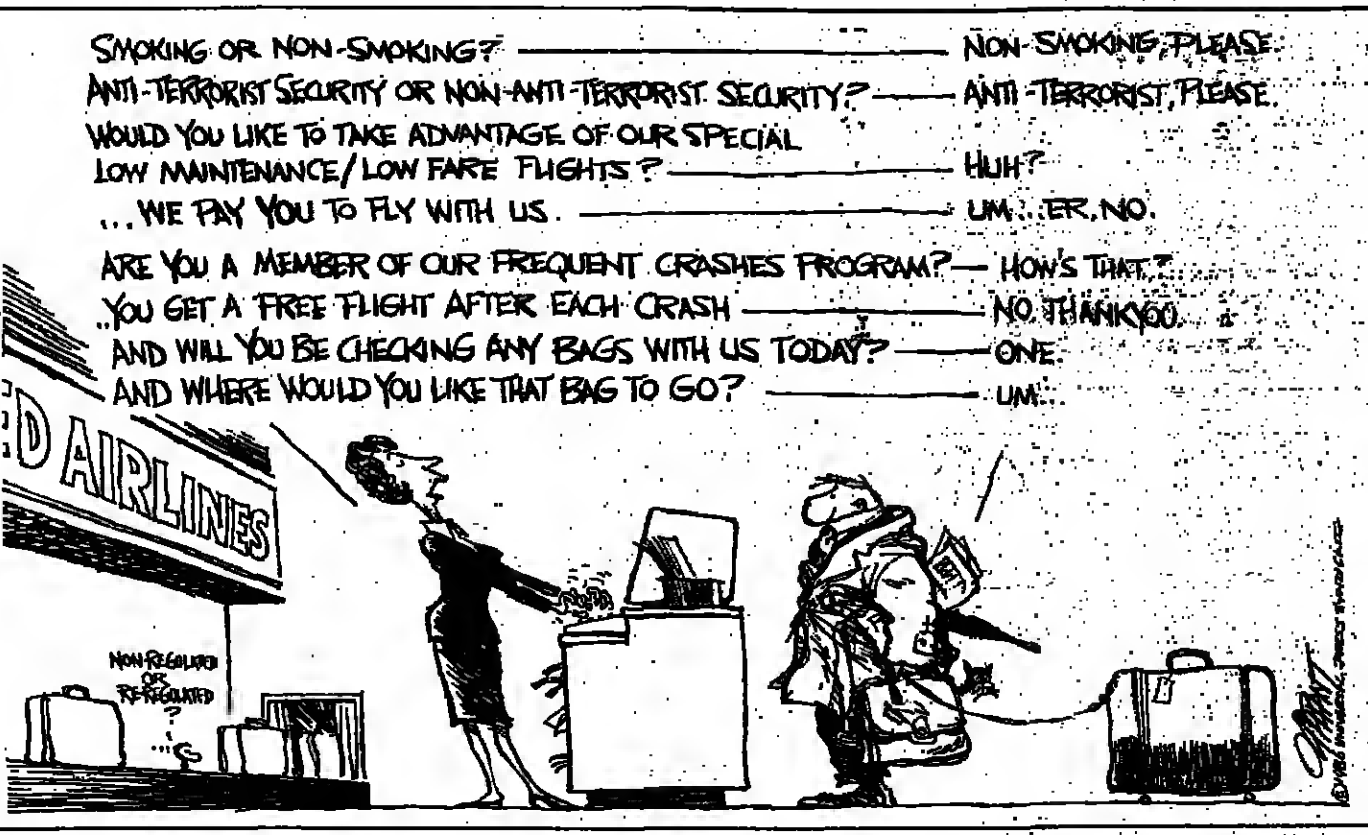
ceal what was got up to — not just in the murky corridors of the Department of Trade and Industry but within No. 10 Downing Street as well. The House of Commons will have done less than its duty if it does not start the process of prizing out some explanation for an episode that has not simply resulted in the departure of two cabinet ministers within a fortnight but has also raised growing doubts over, at best, the competence and, at worst, the integrity of the prime minister herself.

—The Observer (London)

FROM OUR JAN. 27 PAGES, 75 AND 50 YEARS AGO

1911: A New Strauss Opera Opens
DRESDEN — Richard Strauss' latest opera, "Der Rosenkavalier," was produced for the first time on the stage at the Dresden Court Theatre [on Jan. 26]. It showed Strauss in a new light — namely, as a brilliant humorist. The libretto of "Der Rosenkavalier" has been written by a Viennese, the poet von Hofmannsthal, and glorifies the Vienna of the time of Maria Theresa. The title arises from the custom of the young men at the Vienna Court to send to their beloved by a horseman a silver rose. The bearer of the rose was known as a "Rosenkavalier." In delineating character in music, Strauss has been even more original than before. He expresses things which seem almost impossible to represent. Strauss' music marks the carrying out of a public desire that opera music should be gay as well as artistic.

1936: Catholics Told to Resist Nazis
BERLIN — There was silence fraught with deep meaning in the Roman Catholic Churches in Berlin [on Jan. 26] as the faithful listened to a strongly worded pastoral letter. The letter was read at mass in Catholic churches throughout Germany. The bishops call for mobilization of all Catholics of the Reich for the struggle against "certain forces" which are making every effort to "shatter the faith of adults and youth and pave the way to a new bedonism." Although the bishops avoid direct charges against the Nazi State and Party, they make it clear that the forces are Nazi forces. By implication they forbid German Catholics to read certain Nazi literature and attend certain Nazi meetings and training camps. The bishops are known to be negotiating with the Nazis concerning the religious training of youth.



Reagan Should Help Keep the Summit Spirit Alive

By Jacob K. Javits

NEW YORK — Whatever the particular merits of the Soviet proposal for the elimination of nuclear weapons, it is a welcome effort to maintain the cooperative spirit kindled at the summit meeting in Geneva. President Reagan ought to respond in kind. An effective way to do so would be to revive his promise to share the technology being developed for his Strategic Defense Initiative.

If there is a way out of this impasse? Sharing strategic defense technology with the Soviet Union would allay many of the Russians' concerns —

of an American proposal at the Geneva talks. It would cut defense costs, reduce the risk of a new acceleration of the arms race and anchor the crisis atmosphere that still exists between the two countries. Nor does the latest Soviet proposal necessarily exclude a strategic defense.

Reducing both sides' nuclear arsenals by 50 percent — an idea that has now been endorsed by both President Reagan and General Secretary Gorbachev — would be the cornerstone of a new arrangement between the superpowers. But it must be buttressed by other steps. The first and most important would be to conclude the negotiations in Vienna on mutual balanced force reduction, thus much reducing the threat of a confrontation with conventional weapons.

Mr. Reagan is much admired. He can accomplish what other presidents may not be able to do.

to a new low and confrontation was a dangerous possibility. Fortunately, that general concern counseled President Reagan, under the stress of his 1984 re-election campaign, to modify his hard condemnation of the Soviet Union as the "evil empire" and to adopt a more conciliatory stance. Fortunately, too, this marked coincidence coincided with the coming to power of a new, younger and more enterprising leader in the Soviet Union.

Thus far both that restraint and the cooperative atmosphere of the summit meeting persist. The issue before us is whether this atmosphere can be converted into tangible results. Can America, in the short run, avoid a new round of Soviet-bashing, with all its dangerous consequences? It may be possible if it is recognized that a workable agreement need not be based on trust in the Soviet Union. History demonstrates that mutual self-interest, not trust, is the real glue in international relations — and only the mutual self-interest of the superpowers can ensure a durable peace.

particularly their sense that while they themselves may be researching strategic defenses, their technology lags far behind America's; and also their fear that their industrial capacity may be even more greatly strained by the need to further expand their nuclear arsenal to match an American strategic defense system.

Other issues demanding comparable attention are human rights, trade, the sharing of medical research, con-

Mikhail Gorbachev's proposal to eliminate nuclear weapons by the year 2000 is a constructive step in that direction. The proposal parallels and extends the "zero option" for the elimination of nuclear weapons in Europe put forward by President Reagan in 1981. Both leaders have in effect agreed that the arms control talks in Geneva should proceed along this line under an accelerated timetable. The basic sticking point is the Strategic Defense Initiative.

The Politburo has taken a seemingly non-negotiable position on this issue, refusing to consider an agreement that would allow even strategic defense research. The reason, according to Moscow, is that research is defined in the United States to include some testing of weapons.

The United States appears to have taken a comparably non-negotiable position. President Reagan is determined to proceed, holding firmly to his original vision — his notion that a strategic defense would allow the elimination of nuclear arms.

The American position is further complicated by allegations that the

Gorbachev Has Cornered the Initiative

By Christoph Bertram

HAMBURG — Whatever else may lie behind the Gorbachev arms control plan, it has made painfully clear that America has lost the diplomatic initiative to the Soviets.

By insisting that the Strategic Defense Initiative is not negotiable, the U.S. administration has pushed itself into a corner. Now it cannot probe whether Moscow is serious — which is likely — or merely playing to the gallery of public opinion. It cannot threaten to pull out of the talks, and losing all diplomatic flexibility as a result. That no doubt would have been the advice of former Foreign Minister Andrei Gromyko. But the new Soviet leader hoisted Mr. Gromyko to the ceremonial job of head of state and proceeded to the Geneva summit meeting in November despite the American refusal to budge on the SDI. He even agreed to a final declaration with President Reagan that did not mention the SDI at all.

is improving his image at the expense of America. The Kremlin is scoring more points in the public opinion contest than is the White House.

More serious is the fact that the Reagan administration, through its fixation on the SDI, is depriving itself of the means to shape a new arms control regime in Geneva. In the past four decades only the United States, not the Soviet Union, has been capable of developing the concepts, formulating the objectives and catching the solutions that finally led to agreement. Moscow knew when to accept a deal but never how to construct one.

All Faiths Are Equal Before the Law

By Edwin M. Yoder Jr.

RICHMOND, Virginia — In Cannon Memorial Chapel on the University of Richmond's rolling campus, Fred Anderson held up what looked like an old leather-bound book. "I hold in my hand a rusty piece of iron and a key," said the official historian of Virginia Baptists. "If Baptists had sacred relics this would be our equivalent of hair from a saint's head."

On this rainy morning, we had gathered to recall a bright interval in the somber history of religious oppression: the 200th anniversary of Thomas Jefferson's Virginia Statute on Religious Freedom, passed by the commonwealth's legislature in mid-June 1786.

The lock was used to incarcerate several Baptist preachers more than 200 years ago for religious practices contrary to the Anglican religion "by law established."

Mr. Anderson recalled a remarkable scene from a century ago. A speaker at a similar commemoration had turned the old key in the lock. When the rasping sound rang out, many wept, moved by the memory of suffering for conscience's sake, on American soil.

For good reason, the Virginia Statute was one of three accomplishments that Jefferson wished to be remembered for on the obelisk that marks his grave at Monticello. (The presidency was not among them.) As usual, he had his priorities straight. A law asserting the radical equality of all religious preferences was a novel idea in the world of 1786, even in the land of the Declaration of Independence.

It was a first, an original. The statute embodied the dream of Jefferson — one of his younger confederates, James Madison, who saw the bill to passage in Jefferson's absence — that the troublesome interest between government and religion be ended forever. It was, Jefferson asserted in a rare burst of passion, impious to think that man might usurp God's function:

"Whereas Almighty God hath created the mind free [and] being Lord of body and mind, yet chose not to propagate [religion] by coercion or civil, as was in his Almighty power to do... Why then did fallible man presume to do what the Creator declined to do?"

Speaking later on this day of commemoration, Senator Lowell Weicker noted that Americans have spun a pleasantly self-flattering myth to the effect that the evils of religious persecution were an Old World practice, left forever on the shores that their ancestors fled. In fact, Jefferson's statute was a response to acts of persecution. Baptists, who insisted on conducting unhonored meetings, were the main victims but not the only ones.

In 1774 Madison had written to a college classmate that, even in Virginia, the "hell-conceived principle of persecution" had taken hold. In the next county "not less than five or six well-meaning men are in jail for publishing their religious sentiments, which in the main are very orthodox." It took imagination to

see evil in the routine reaction to challenges to established legal authority. And it took persistence and political craft to remedy it.

The statute, a part of Jefferson's comprehensive post-revolutionary "revival" of Virginia laws, was mainly couched in his usual cool appeal to reason. It was the first act by any legislative body to guarantee religious freedom — not in the form of "toleration" (implying a superior grasp of truth and subject to arbitrary exceptions), but as an absolute natural right. It went beyond mere tolerance to place all beliefs, however odd, on equal footing before the law. In this it was radically original: a leap of the moral imagination to a further shore.

And today? You don't have to be sharp-eyed to see that the meaning of this Virginia legacy, and of its unmistakable echoes in the First Amendment, is disputed. Everyone subscribes to the sentiments, but what is their practical meaning? Jefferson pronounced it "sinful and tyrannical" to tax a man for the propagation of beliefs not his own. Does that mean no tax subsidies for parochial schoolbooks?

The Virginia Statute on Religious Freedom neither settled nor foreclosed debate about religious pluralism. It was the world's first important assertion of the idea. It looked far beyond the conventional church-state practices of the day to an entirely new plan for accommodating and tempering religious conflict. For that we owe our thanks, if not a few tears.

Washington Post Writers Group.

The Debtors Need Help At the Brink

By Tom Wicker

NEW YORK — Plunging oil prices mean that Mexico may have to stop paying interest on its \$97 billion in foreign debt, perhaps right away. Better to do it now, President Miguel de la Madrid is likely to reason, than with a far bigger debt and smaller reserves later on.

No doubt Washington will attempt a rescue, as in 1982. But that is un-

The treadmill leads to cessation of payments.

likely to work if the aim is merely for U.S. banks to be paid the interest due them, while the Mexican people suffer for a harsher round of austerity and their government gets into scarce resources to pay the gringo bankers.

A halt to interest payments might cause the Reagan administration to seek a solution that would permit Latin debtors to grow out from under a debt burden that crushes their people and threatens their political stability — while also saving the U.S. banking system from itself.

Mexico is an exporter of oil, from which it earns more of its foreign revenues — about \$14.7 billion in 1985. But annual interest costs on its foreign debt are \$10 billion or more. So oil earnings are already insufficient to service Mexico's debt and meet its other obligations. Reserves are estimated at less than \$5 billion.

The government had been planning to seek \$4 billion in new loans to help meet interest costs this year. That estimate was based on oil prices averaging about \$25 a barrel in 1986, which would have earned Mexico about \$13.6 billion for shipping 1.5 million barrels a day. But the price of crude is falling, and every \$1 drop costs Mexico more than half a billion dollars. Even if Mexico can maintain its market share, it would need to borrow at least \$7 billion this year if it paid interest due its creditors.

The Reagan administration and the Federal Reserve might pressure U.S. banks into such loans; but then Mexico's debt would be driven well above \$100 billion. That would increase its interest costs in future years and keep it on a treadmill of borrowing to pay interest, with the result that its debt would keep rising and so would its debt service. How would that serve Mexico or its creditors, who could never expect repayment?

Someday or later the debt treadmill will make it all but inevitable that Mexico stop paying. If other major debtors, notably Argentina and Brazil, followed suit, the U.S. banking system might collapse. The nine largest U.S. banks have lent 180 percent of their capital to East European and Third World countries.

On the other hand, long-continued austerity — like Mexico's brutal peso devaluation, or tough wage restraints in Argentina — would surely produce increasing political instability among resentful Latin peoples, bringing revolutionary wars, left or right, to the fore. None of it is likely to be in the U.S. political or economic interest.

There is a better way. The administration and the Fed could pressure U.S. banks into stretching out short-term Latin debt to 30 years and cutting interest rates to 6 percent; regulatory relief could be given to the banks to permit this. Their profitability would decline but the security of their loans would be enhanced.

A reduction of one point in interest rates would save Mexico \$1 billion a year. Since current rates are 10 percent and often higher, a reduction to 6 percent would save all Latin debtors at least \$20 billion a year. That would help them to invest again in economic growth and start paying their way out of debt.

For the long pull, sustained economic growth in the industrialized world and an absence of protectionist measures — to accommodate the needed growth in Latin exports — will be needed. For now, maybe a jolt from Mexico will cause Washington and U.S. banks to take the necessary steps to halt the debt treadmill.

In my article on this page on Jan. 14, the Reverend Allan Boesak, a South African activist against apartheid, was identified as white. In fact, his government's racial policy classifies him as a "colored" of mixed black and white blood. The error is regretted; the policy is odious.

The New York Times.

LETTERS TO THE EDITOR

Terrorism and Peace

In "Anti-Terrorism Has to Be Pro-Peace" (Jan. 13), Robert E. Hunter suggests fighting Abu Nidal's terror by avoiding the "close embrace" between the United States and Israel and by "hammering together" a settlement between Israel and the moderate Arab states. But it is just this kind of settlement that Abu Nidal fights viciously by assassinating moderate Arabs. The European countries that are most violently hit are Austria, Italy and France — all of which maintain warm relationships with the Palestine Liberation Organization — since Abu Nidal hates the PLO even more than Israel. So appeasement of the PLO will only increase his terror.

Not all terrorist groups are alike. Some, like the Red Brigades and Abu Nidal's group, consist of a small number of fanatics who cannot be dealt with politically but only by sophisticated police methods.

M. WÉGER, Hamburg.

to give Palestinians a country. Let them have their own state and they will think twice before provoking other countries by reckless acts.

Meanwhile, a simple step would seriously curtail terrorist activities: Change the rules concerning the diplomatic pouch. Diplomatic correspondence should be free from scrutiny, but not pistols and grenades. As long as today's rules are maintained — as long as any country can use the diplomatic pouch to support terrorists with weapons sent across borders — retaliatory strikes and the best of airport security will not prevent additional acts of savagery.

The life of one child saved by X-raying a diplomatic pouch would outweigh the inconvenience experienced by the various foreign services.

HERMANN ARNDT, London.

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TO THE EDITOR

Dear Sir, I am writing to you...

Lesotho Ousts Fugitives From South Africa to End 3-Week Blockade

By Alan Cowell

New York Times Service

CAPE TOWN — Lesotho's new military rulers have deported a group of South African political fugitives in return for the lifting of a blockade imposed by Pretoria more than three weeks ago.

The state-run Radio Lesotho said Saturday that a charter Air Zimbabwe plane flew the 60 South Africans, described as supporters of the African National Congress, to an undisclosed destination.

The refugees, including children and several women, arrived Saturday in Zambia, Reuters reported from Lusaka, Zambia.

The congress is the most prominent of the groups seeking the overthrow of white minority rule in South Africa.

While the exiles were being deported, the South African foreign minister, R.F. Botha, said in a statement that his government had decided to "lift the border control measures."

The departure of the exiles, South African commentators said, reflected South Africa's ability to enforce its will on an economically dependent black-ruled neighbor.

While Pretoria has seemingly reached beyond its borders to tighten the noose around the congress, the organization's popularity and influence in South Africa seems as strong as ever.

"Sooner or later, we will have to deal with it," said Alex Boraine, a white opposition leader, in a public debate about the rebel group that would have been unthinkable only a few years ago.

Visitors returning to South Africa after several years say they are amazed that the role of the congress, which was outlawed in 1960 and has been operating from exile since, is debated at all in a nation with such a pervasive security network.

Lesotho, a mountainous kingdom that gained independence from Britain nearly two decades ago, is encircled by South Africa.

South Africa imposed tight controls Jan. 1 on traffic across its border with Lesotho, effectively imposing a blockade to back up demands that the small kingdom hand over congress members.

The blockade brought political divisions within the black-ruled country's hierarchy into the open. Last Monday, the country's automatic prime minister, Chief Leabua Jonathan, was overthrown in a military coup.

Since then, the country's new rulers, although rejecting Pretoria's demands that members of the con-

gress be handed over to South Africa, have sought a settlement with Pretoria to end the blockade.

In his statement Saturday, Mr. Botha said South Africa and Lesotho had reached an agreement that was similar in content, although not nearly as formal, as Pretoria's nonaggression pact with Mozambique in March 1984.

"The two governments subscribed to the principle that neither would allow its territory to be used for the planning or execution of acts of violence or terror and that they would take steps to see that this principle is effectively applied," Mr. Botha said.

In South Africa, meanwhile, political violence, which has claimed nearly 1,100 lives since September 1984, continued at the funeral of a political activist, who was slain two weeks ago shortly before he was to meet with a U.S. official, Chester A. Crocker, the assistant secretary of state for African affairs.

More than 5,000 people attended the funeral of Ample Mayisa, at Leandra, the black township east of Johannesburg. Mr. Mayisa was said to have been killed by pro-government blacks.

During the funeral, witnesses said, a group of Mr. Mayisa's supporters pursued a man whom they accused of taking part in the killing, hacked him to death and returned to the burial chanting, "The dog is dead! The dog is dead!"

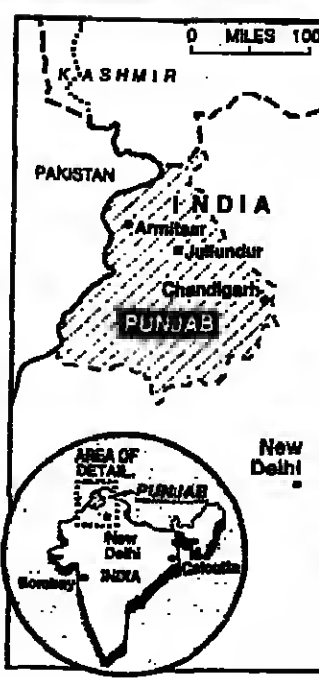
■ Pretoria Warns Botswana Mr. Botha warned Botswana that it faces military "action" if it does not halt what Pretoria regards as the use of the country's territory as a springboard for attacks on South Africa by the African National Congress, Agence France-Presse reported from Johannesburg.

Mr. Botha, in a statement quoted by the Sunday Times, said he accepted that Botswana did not actually assist the congress's "terrorists," but charged the Gaborone government was aware that the congress was using its territory.

He warned Botswana, "that infiltration route will have to be closed" or the South African army would take "appropriate action," the Sunday Times reported. This policy, he said, "applies to all countries."

A Botswana government spokesman, replying to Mr. Botha's comments, said the threat was "completely unwarranted."

He said it was "a stark reminder" of the raid on Gaborone by South African commandos last June, in which 12 people were killed and several homes were destroyed.



Militants Gain Control of Sikh Shrine

AMRITSAR, India — Militant Sikhs assumed top religious offices Sunday, giving them effective control of the Golden Temple.

Their action at the temple here, in Punjab state, excludes moderates who cooperate with the central government. The temple is the holiest shrine of the Sikh faith.

Meanwhile, Police and soldiers were on alert in Punjab, where Sikhs are in the majority, and in the neighboring, Hindu-dominated state of Haryana after a government commission failed to agree on terms for the transfer of the city of Chandigarh to Punjab and Haryana.

The transfer had been scheduled for Sunday. It was a key element of a peace agreement signed in July by Prime Minister Rajiv Gandhi and moderate Sikh leaders to end three years of Sikh autonomist violence.

At the Golden Temple, 20,000 Sikhs voted at a militant-sponsored assembly to replace moderate officials with more militant functionaries.

Many militants shouted for the separation of their homeland from India, and waved flags of the Khalistan state they want to establish.

Moderate Sikh groups disputed the legality of the assembly, but the militants were left in effective control of the temple complex to the exclusion of supporters of the Akali Dal party of Punjab's chief minister, Surjit Singh Barnala.

The militants rejected the Punjab peace pact between the Akali Dal and Mr. Gandhi.

Report Links U.S. Aides Seek a Distancing From Marcos

By Francis X. Clines

New York Times Service

MANILA — Incidents of assassination and intimidation, part of the political tradition in the Philippines, are an increasing factor in the campaign for the presidency, with 13 slayings reported in the government's latest count issued Saturday.

Nine of the victims have been supporters or campaign workers of the opposition candidate, Corason C. Aquino, and four were members of President Ferdinand E. Marcos's party, according to the government report.

Most of the shootings and slayings have occurred in the last six weeks in the provincial areas in central Luzon, 50 miles (80 kilometers) or more from the capital. This was described as the nation's "No. 1 hot spot" in a report issued by the military and police authorities.

Mrs. Aquino became a candidate after her husband, Benigno S. Aquino Jr., was assassinated. Opposition leaders said that some of the shooting incidents had clearly been designed to intimidate entire areas of Aquino supporters.

The major example they cite was the shooting of Jeremias de Jesus, a provincial campaign leader and godson of Mr. Aquino. His right thumb and index finger were cut off in what was taken as a desecration of the L-shaped hand signal that is a symbol of Mrs. Aquino's party.

The president's supporters deny a connection between his campaign and the violence, noting that scores of slayings, some of them related to community and family vendettas, have regularly occurred in each major Filipino election.

■ Marcos Criticizes 'Meddlers' Mr. Marcos criticized on Sunday "meddlers and interventionists" from overseas who will be monitoring the election. The New York Times reported from Manila.

"To preserve our sovereign integrity, we must prove to them nobody need tell us how to hold a clean and democratic election," Mr. Marcos said at a caucus of his party leaders.

His statement also implied that it might be Mrs. Aquino's supporters who would cause the vote to be unfair by their efforts to recruit freelance poll-watchers to counter what they say are plans for massive cheating by the president's party.

U.S. Aides Seek a Distancing From Marcos

(Continued from Page 1)

States for Mr. Marcos to go, they do not appear to have any idea of who would succeed him.

Most of the officials are also wary of his opponent in the election, Corason C. Aquino. The officials say they have little confidence in her leadership skills.

Despite a variety of statements from the two candidates throughout the campaign, their positions on the U.S. bases are essentially the same. Both say they would keep the bases through the life of the current agreement, which expires in 1991, and would negotiate a new agreement in the light of their perceptions of the domestic and international situations at that time.

The public articulation of the administration policy is not to choose between Mr. Marcos and Mrs. Aquino, but to stress free and fair processes and change. This, in itself, represents a dramatic shift from Mr. Reagan's contention in the presidential debate of 1984 that the "alternative" to Mr. Marcos was "a large Communist movement to take over the Philippines."

The administration has decided, for the time being, neither to do whatever is necessary to support a close ally whose hold on power seems increasingly tenuous, nor to help depose him from power and thereby accept greater responsibility for whatever might come.

A number of the officials interviewed about Mr. Marcos's future acknowledged that the fates of Mohammed Reza Pahlavi, the deposed shah of Iran; Anastasio Somoza of Nicaragua and Ngo Dinh Diem of South Vietnam were very much in the minds of Mr. Reagan and his top advisers. Whatever the U.S. role in their downfalls of those leaders, incumbent presidents took the political blame.

The public focus is on the presidential elections in the Philippines. But officials say they do not have high hopes for honest results. They worry about a patently fraudulent result that could radicalize Philippine politics, about moderates either being made irrelevant or drawn toward alliance with the Communists.

For the most part, officials are looking beyond the election. To be sure, they say they still want the contest to be a "free and fair" one that would reinstate democracy in the Philippines and re-establish the armed forces there as a neutral force in democratic politics. But they anticipate that the real test will come this year, or next year at the latest, when they say they expect Mr. Marcos to be gone because of his health.

The general view among those interviewed was that Mr. Marcos would win and that fraud would be widespread.

If most of them had their way, Mr. Marcos would win an election that was not too unfair and then quickly step aside in favor of his vice presidential candidate, Arturo Tolentino. "Tolentino is 75 years old, respected and reasonable and perfectly designed to carry out a transition," said a senior State Department official.

Savimbi's Prospects in U.S.: Moral Support but No Aid

(Continued from Page 1)

ment of the whole matter, including Namibia.

He said a congressional resolution on the subject was being "worked on" by the Senate majority leader, Robert J. Dole, Republican of Kansas, and by Senator Richard G. Lugar, the Republican of Indiana who is chairman of the Foreign Relations Committee.

The secretary of state said the resolution would provide "a general expression of sentiment" in support of Mr. Savimbi's guerrillas.

A senior administration official, asked to amplify Mr. Sulz's comments, said Saturday that "one of the foundations of our policy is the belief that military solutions to the

region's problems are not viable, and that a negotiated agreement is the only way to attain durable peace and stability."

Chester A. Crocker, assistant secretary of state for African affairs, recently met Angolan and South African leaders to discuss the drawn-out negotiations. Mr. Sulz said in the interview that a negotiated accord remained possible.

"It's a long, hard process," he added, "and I don't want to give any impression that we're about to find a solution. But the process is alive, and the exchanges are of such a nature that movement is discernible."

Qadhafi 'Confronts' U.S. Fleet

(Continued from Page 1)

ning of the Maltese and Italian continental shelves," he said.

This was interpreted to mean that he was extending Libya's sphere of economic interests into the central Mediterranean. Standard reference books show almost all of the Gulf of Sidra as beyond the continental shelf, which generally ends at a sea depth of 600 feet.

The colonel denied radio reports Saturday that two Libyan jet fighters had backed away Friday from an aerial engagement with four U.S. fighters from the 6th Fleet.

"There was no fight yesterday," he asserted.

Colonel Qadhafi also said Libyan aircraft had intercepted and warned off 18 U.S. planes that had tried to approach Libyan airspace. In 1981, U.S. carrier-based fighters were ordered to fly over the gulf

Report Links U.S. Aides Seek a Distancing From Marcos

(Continued from Page 1)

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EUROBONDS

As Doubts on Rates Persist Fixed Coupons Are a Fad

By CARL GEWIRTZ

PARIS — Converting uncertainty into money is the way investment bankers explain the latest fad in the Euro-bond market — the sale of options to buy fixed-coupon bonds.

Corporate treasurers, judging by their willingness to sell options on high-coupon, non-callable paper, would appear to believe that rates are headed higher. And investors, judging by the high prices they are willing to pay for those options, are willing to speculate that rates will drop.

Chrysler, Westpac Banking, Nederlandse Gasunie, DSM (formerly Dutch State Mines) and Den Norske Kreditbank — using very different structures — all used the warrant formula last week to raise money on the international capital market.

Chrysler tapped on to its \$100-million of four-year 10-percent bonds, 100,000 warrants to buy eight-year non-callable bonds bearing a coupon of 10 1/2 percent. Chrysler used the money-back formula — issuing eight-year warrants at \$25 and offering to redeem them at \$17 after the fifth year or at \$25 at the expiry date.

Another plus for the warrants was the relatively uncomplicated structure — they can be exercised for cash with no mandatory waiting period. They ended the week quoted in a range of \$32-\$36.

The warrants are thought to have an additional speculative appeal as many investors believe the parent company is a better credit than its current triple-B rating indicates. An upgrading would reduce the spread it pays over Treasury paper, leaving room for the warrants to have value even if interest rates move up. However, the coupon on the warrant bond — roughly 100 basis points over current Treasury yields — already anticipates some of that upgrading.

BY CONTRAST, the four-year notes, issued at a price of 100 1/4, ended the week at a discount of 98 1/2, where they yielded 160 basis points, or 1.6 percentage points, over comparably dated Treasury notes.

Westpac also packaged a bond issue with warrants. Its \$100-million, 10-year bonds were offered at 100 1/4 bearing a coupon of 10, but ended the week down 2 1/4 points. The bonds are callable after five years at a premium starting at 101 1/2.

Its 200,000 of 10-year warrants are redeemable and bear interest. If exercised at the expiry date, holders can get back the \$50 offering price. For the first five years the warrants pay a dividend of \$5, but during that period they cannot be exercised. In the final five years, they can be used to buy 1 1/4-percent paper maturing in 1996. But to exercise, investors have to surrender the callable bond rather than paying in cash — a feature that is rapidly fading from favor.

The warrants traded hands at almost \$70 each before retreating at week's end to \$55. When the dust had settled, traders said an unattractive feature of the warrants was the long waiting period before they can be exercised.

The warrants issued by Gasunie, DSM and Den Norske were notable from the corporate treasurer's view. The bulk of the warrants issued to date have represented the securitization of the call on new issues. That is, a 10-year bond callable after five years was sold along with 10-year warrants, exercisable after five years, to buy paper bearing otherwise identical terms.

This securitization of the call feature has now moved a step further with treasurers selling the call on earlier issues. Gasunie has an outstanding issue of \$75 million of 11 1/4-percent bonds maturing in 1991 and callable after 1988, starting at a price of 101. Now, Gasunie is offering 75,000 warrants, exercisable in 1991, to buy 11-percent bonds maturing at the same date. The warrants are not exercisable until 1988. During the first two years, they will pay a dividend of \$2.50.

Initially offered at \$26 each, the warrants ended the week at \$42. Officials at the lead manager, Morgan Stanley, said the relatively small size of the offering and the high 11-percent coupon on the warrant bond explained the rise.

DSM used an identical structure. It has outstanding \$150 million of 11 1/4 percent bonds maturing in 1991 and callable in 1988 starting at 101. It is now selling 150,000 of five-year warrants, not exercisable for the first two years, to buy 10 1/4 percent paper.

Last Week's Markets

All figures are as of close of trading Friday

Table with columns for Stock Indexes, Money Rates, and Currency Rates. Includes sub-tables for US Stock Indexes, Money Rates, and Currency Rates.

Currency Rates

Table showing currency rates for various countries including Germany, France, Italy, Japan, etc.

TI Posts Loss for Quarter

But Chip Sales Said to Improve

By Thomas C. Hayes

New York Times Service

DALLAS — Texas Instruments Inc. is suffering from Japanese competition in its semiconductor unit, has reported losses of \$41.2 million in the fourth quarter, compared with a profit of \$64.6 million, or \$2.64 a share, a year earlier.

But analysts said the loss was lower than expected and indicated that semiconductor sales were improving. The company also announced Friday that it had filed suits against nine Asian semiconductor makers, charging them with violating Texas Instruments' patents on various computer memory products.

The suits assert that it is impossible for the manufacturers, eight Japanese and one Korean, to produce the dynamic random-access memories they are selling to the United States without using technology created by Texas Instruments.

Adam Culney, a semiconductor analyst with Kidder, Peabody & Co. in San Francisco, said the suits could result in a ban on sales of those companies' semiconductors by the U.S. International Trade Commission within six months.

"This attack is extremely aggressive and could lead to great improvement for the business of all United States semiconductor manufacturers," Mr. Culney said. The FTC decided unanimously Wednesday that Japanese manufacturers had "dumped" 256-K semiconductors below cost to gain a larger share of orders in the United States.

In the fourth quarter, Texas Instruments sales fell 20 percent to \$1.2 billion, from \$1.5 billion.

For the year, the company reported losses of \$118.7 million, compared with a profit of \$316 million, or \$13.05 a share, in 1984. Sales fell 14 percent, to \$4.9 billion, from \$5.7 billion.

Jerry R. Jenkins, president and chief executive, said fourth-quarter losses were due principally to lower sales and "sharply" lower prices on semiconductor products. He also noted that Texas Instruments lost market share in 1985.

A recent survey by Dataquest Inc. placed Texas Instruments third among the world's semiconductor manufacturers, after Japan's NEC Corp. and Motorola Inc. of the United States. It was the first year since it helped create the industry nearly 30 years ago in which Texas Instruments had not led in semiconductor production.

Norman Neureiter, a company spokesman, said Fujitsu Ltd., Hitachi Ltd., Old Electronic Industry Co. and Toshiba Corp. of Japan and Samsung Electronics Co., a Korean manufacturer, are five of the companies named in the suits.

Sudan Nears Agreement With IMF

Compiled by Our Staff From Dispatches

KHARTOUM — The International Monetary Fund and Sudan's Finance Ministry have agreed on an economic policy plan, Finance Minister Sidahmed Taifour said Sunday.

He said the proposals would go to the cabinet before Friday. If the ministers approve, the accord would substitute for one that was rejected by the cabinet in November.

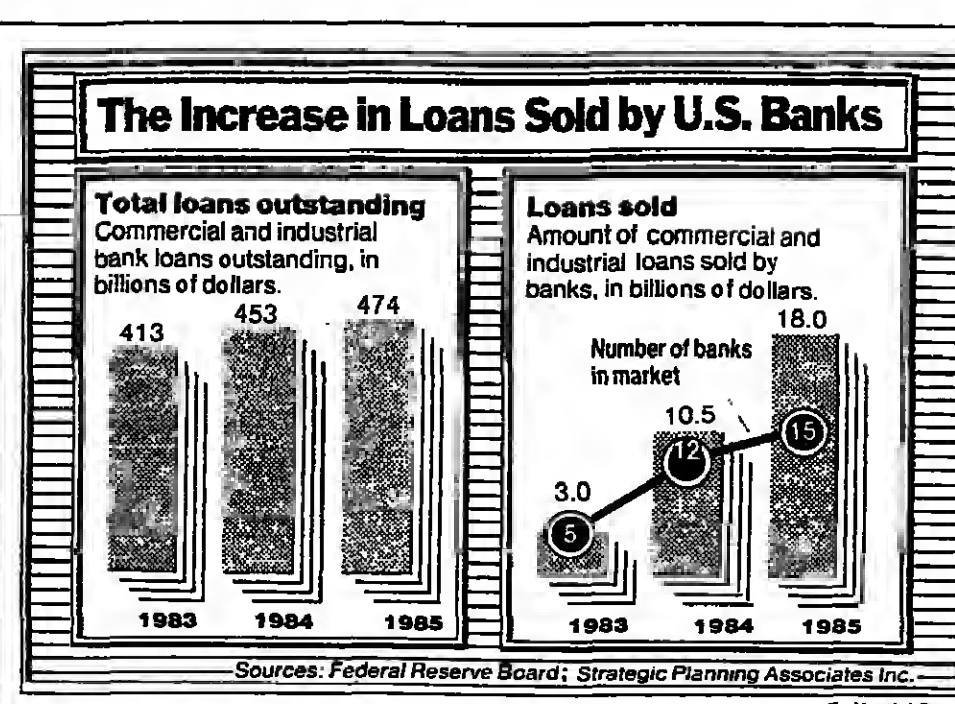
Sudan urgently needs a clean bill of health from the IMF to raise money from Arab and Western donors to pay overdue debts, including more than \$220 million due to the IMF by Feb. 3. On Jan. 3, the IMF gave Sudan a month to repay the \$220 million or be officially declared in default.

Sudan's debt-service ratio has risen because drought has undermined agricultural exports and much of the cotton crop is unusable. Mr. Taifour said servicing the overall debt took 125 percent to 150 percent of export receipts of about \$870 million.

Mr. Taifour declined to give details of the policy plan but said it was a standard IMF package, which usually means limits on the budget deficit, a relaxation of price controls and measures tantamount to currency devaluation.

Trade Minister Sidahmed al-Sayid said earlier that the IMF had agreed to let the government borrowing exceed the \$80 million stipulated in the earlier, rejected accord. It had also agreed that the money-supply rate be raised from 20 to 25 percent, Mr. Taifour said.

Mr. Taifour, who took over a month ago after his predecessor resigned in the dispute over IMF terms, said a Sudanese delegation that visited the IMF in Washington earlier had promised to pay \$10 million toward the \$220 million in arrears before Feb. 3.



Loan-Selling Raises Concern in U.S.

By Eric N. Berg

New York Times Service

NEW YORK — Last October, Manufacturers Hanover Trust Co. lent \$180 million to a major oil company. But rather than holding the loan to maturity, as banks have always done, Manufacturers Hanover within weeks sold half of it to other financial institutions around the world.

This is but one example of what banking experts say is a significant change sweeping the banking industry. One after another, major U.S. banks are using their deposits more productively by selling off billions of dollars of their best business loans and relending the proceeds to new customers.

"We try to sell as many of these big wholesale loans as we can," said Francis X. Stankard, chairman of Chase Manhattan Capital Markets Corp.

Carl O. Roark, a senior vice president at Bankers Trust Co., said, "Loan selling is the core of our strategy as a bank."

Yet as the market for loan sales heats up, concerns are being raised.

Some federal regulators fear that, as banks shear off huge sections of top-quality loans from their balance sheets, the loans that remain on banks' books will increasingly be the worst credits, weakening the nation's largest banks and threatening the safety of deposits. Indeed, one reason the Federal Reserve recently asked banks to increase their capital is that it felt loan selling was weakening banks.

Regulators also fear that the same type of problems could crop up in loan sales that have occurred in loan syndications. Such problems led to the Penn Square Bank debacle. There, banks that participated in energy loans made by Penn Square relied on Penn Square's credit analysis rather than doing their own homework, and consequently had monumental losses when those issued by Penn Square soured.

"Done properly and legitimately, loan sales are fine," said a senior official at the Federal Reserve, who asked not to be named. "But in the back of my mind, I worry that someone will be foolish and irresponsible with

loan sales, and that some parties could get hurt as a result." Some corporate treasurers and chief financial officers are also concerned. Although loans carry the same terms when sold — and corporate borrowers often continue making payments to the original issuing bank — corporate officers say they are made uneasy by the practice.

While recent loan agreements clearly state that the loans may be sold, a borrower often does not know when, or to whom, it has been sold until after the transaction is completed. Knowing to whom a loan will be sold is important, some corporate executives say, because their loans may be bought by smaller banks that they might not want as creditors if their corporations got into trouble.

They also fear that confidential information about their companies might somehow fall into the hands of a competitor. In addition, loan selling, they say, has the potential for wrecking "relationship banking," the close rapport between a borrower and banker that has become the cor-

(Continued on Page 15, Col. 6)

Oteiba Urges Action to Halt Oil Slide

Reuters

LONDON — As Iran and Egypt announced major cuts in their oil production in the face of falling prices, Mansour Oteiba, the oil minister of the United Arab Emirates, said Sunday that there was still time for members and non-members of the Organization of Petroleum Exporting Countries to coordinate policies to prevent further price deterioration.

Speaking at a news conference to Abu Dhabi before leaving for a special OPEC committee meeting in Vienna, Mr. Oteiba said that every oil producing country should act to stop further price cuts. He said the oil industry was passing through "the most critical stage in its history."

Prime Minister Mir Hussein Mousavi of Iran reportedly said the country would halve its oil output until further notice. The Iranian news agency, IRNA, said the move was "an effort to thwart plots aimed at weakening oil exporting countries."

Echoing Mr. Mousavi's suggestion of a Western conspiracy to bring down oil prices, Gholamreza Aqazadeh, Iran's oil minister, said the country had already reduced oil exports and stopped selling oil on the spot market.

Tehran Radio said Sunday that Mr. Aqazadeh spoke at a news conference of an "American-British conspiracy" to drive down prices and said OPEC members should consider using their large level of Western imports as a weapon.

Meanwhile, Egypt, seeking to lessen the impact of depressed oil prices on its economy, aims to reduce production by 100,000 to 150,000 barrels a day in the next few days, a Cairo daily said.

The government-controlled al-Akhar said Sunday that an agreement on reduced output had been reached between the Oil Ministry and producers operating in Egypt. Egypt is not a member of OPEC. It produces 870,000 barrels a day and exports 300,000 barrels daily.

Oil Slump Revives Fears on Latin Debt

By Alan Riding

New York Times Service

RIO DE JANEIRO — Barely three months after a U.S. initiative raised hopes of an easing in Latin America's financial problems, there is a renewed urgency about the region's debt crisis.

The immediate catalyst of the concern is the drop in world oil prices, which has shaken Mexico and Venezuela, two major debtors that depend overwhelmingly on oil revenues to maintain interest payments on their debts.

This has coincided with mounting opposition to Argentina's austerity program and a wave of nationalism in Brazil that has prompted the regime to take a firmer stand in its talks with creditors and the International Monetary Fund.

Foreign bankers and officials in the region said that these four debtors, which among them owe about \$285 billion abroad, were under greater pressure than ever before to reduce their foreign payments and give priority to domestic expansion, moves that would inevitably lead them into conflict with their creditors.

They also pointed out that, while the drop in oil prices would bring savings of perhaps \$1 billion this year for Brazil, which imports 450,000 barrels a day, the damage to Mexico and Venezuela was expected to have a much greater destabilizing effect on the regional debt situation.

This has overshadowed the initiative made by Treasury Secretary James A. Baker 3d last October.

Siemens Seeking Closer Ties To French Telephone Firm

New York Times Service

BONN — Siemens AG, West Germany's largest electronics and telecommunications group, has announced that it had sought to build ties with Cte Générale de Constructions Téléphoniques, the government-owned company that is France's second-largest supplier of telecommunications equipment.

A French government spokesman said Friday that Siemens had also expressed interest in acquiring a stake in the telecommunications group. But Siemens officials said it was premature to say what direction the talks would take.

The move came days after Siemens announced an agreement with GTE Corp. of Stamford, Conn., to cooperate in telecommunications. It also reflected a reshuffling in the world market for digital telephone exchanges, with companies seeking partners to deal with development costs and competition fostered by deregulation.

The effort by Siemens to woo the French is of particular significance, since France's Cte Générale d'Electricité, another state-owned company, is negotiating a complex arrangement with American Telephone & Telegraph Co. and Philips NV, the Dutch electrical and communications giant. Those negotiations seek cooperation in developing and marketing telephone switching systems.

French authorities are reportedly resisting that agreement, but Siemens officials said Friday that their feiler had been extended at the French government's invitation.

Table titled 'SELECTED U.S.A./F.T.C. QUOTATIONS' listing prices for various commodities like Apollo Comp, Mr Gosket, Blitter Corp, etc.

Advertisement for AIG Aeroleasing Geneva, featuring an image of an airplane and text about leasing services.

U.S. Tool Orders Declined 13.2% During 1985

By Daniel Cuff

New York Times Service

NEW YORK — The U.S. machine-tool industry ended 1985 with a drop in new orders and analysts said the outlook for this year was only modestly optimistic.

For all of 1985, new orders were down 13.2 percent from 1984, according to figures by the National Machine Tool Builders Association released Monday. Orders in December fell 9.3 percent from November and 30.6 percent from December 1984.

Machine tools cut and shape metal parts. Customers are companies in heavy industry and therefore the health of the machine-tool industry depends a good deal on capital spending plans.

Recent surveys of capital spending show that corporations are planning to scale back expenditures on plant and equipment this year, a move that does not bode well for machine tools.

Some of the uncertainty has been attributed to the unknowns associated with proposed tax changes for depreciation and investment credits. James A. Gray, president of the association, said, "This regrettable decline in orders for the year reflects the uncertainty of machine-tool buyers' right of President Reagan's anti-growth, anti-business tax reform efforts."

"We are concerned," he added, "that these tax proposals, the four-year-old recovery and forecast of even lower capital spending in 1986 foreshadow continued order decline."

The Commerce Department has reported that capital spending would be cut by 1 percent, after adjusting for inflation, in 1986. Not all analysts, however, were convinced that capital spending might be as bad as the surveys show. A recent report by Andrew J. Silver, machinery analyst at Donaldson, Lufkin & Jenrette, said capital spending could be "surprisingly strong" during the year.

Mr. Silver said capital spending could grow by 6 to 8 percent before inflation, fed by such factors as stronger consumer spending, a reduction in imports and a pickup in exports.

Further optimism was voiced by Richard T. Lindgren, chief executive of Cross & Trecker, a machine-tool company based in Bloomfield Hills, Michigan.

"We feel we are going to have a better year in 1986 than in 1985," he said. "Modestly better. We're looking also for continuing the increase in machine-tool sales as an industry."

Mr. Lindgren said he saw "quite a bit of strength" in the auto industry. "We have been doing proposals on quite a number of projects," he said, "and some of these are going to come home."

He said that there was strength in defense and aerospace and that such construction and agricultural machinery could improve in the next six or eight quarters.

The industry hit a high in 1979, when new orders totaled \$5.6 billion. But from 1981 to 1983, the industry went through its severest recession.

Although the recovery has lasted several years, the machine-tool industry, which is also plagued by imports, has not returned to the level of robust orders.

Machine-tool orders in 1985 totaled \$2.53 billion, compared with \$2.92 billion in 1984, the builders association said.

The tough times have caused a shakeout in the U.S. industry, which includes numerous small firms.

Mr. Lindgren said that as recently as 1981 there were 730 machine-tool companies. Now the figure is closer to 400 and going down, he said.

Imports, which have taken 44 percent of the domestic market, may slow with a weaker dollar but are not expected to give up market share, analysts said.

Slowdowns Cited In Economies of Japan, Britain

United Press International

NEW YORK — The leading indexes, which project the direction of a given economy, are rising steadily in all of the major industrial nations except Japan and Britain, the Conference Board reported.

The U.S. business research organization's International Economic Scoreboard, which tracks both the leading indexes and indicators of current economic conditions, showed Friday that the leading index was rising at an annual rate of 11 percent in Australia.

Behind Australia were Taiwan, 10 percent; Italy, 9 percent; Canada, 6 percent; West Germany and France, 5 percent; and the United States, 3 percent.

The exceptions to the upward trend were Japan, where the growth rate of the leading index has slowed to 1 percent, and Britain, where the index was declining at an annual rate of 1 percent, the board said.

"The most glaring change in the latest numbers is the abrupt reversal in Japan, which has fallen to nearly the bottom of the list," said Edgar R. Fiedler, economic counselor of the Board.

AVIS aux porteurs de parts de EAST INVESTMENT FUND

Le conseil d'administration de East Investment Fund Management Company S.A. a décidé de modifier comme suit les dispositions des articles 1 et 16 du règlement de gestion de East Investment Fund.

L'article 1 du Règlement de Gestion est modifié comme suit: A l'initiative de Daiwa Europe NV, Amsterdam et Gefinor Investment Limited, Nassau, «East Investment Fund» est renommé «Fonds».

Le premier alinéa de l'article 16 du Règlement de Gestion est modifié comme suit: La durée du Fonds n'est pas limitée. Le Fonds pourra être dissous à tout moment sur décision de la Société de Gestion, et il sera dissous en cas de dissolution de la Société de Gestion.

East Investment Fund Management Company S.A.

Behind Baker Plan: A Trade Deficit — And the Kremlin

By Clyde H. Farnsworth

WASHINGTON — There were two basic forces at work in Washington last October when the Reagan administration abandoned a stance of benign neglect and initiated a plan to help debtor countries that help themselves.

One was the huge and growing trade deficit of the United States, much of which was caused by a sharp contraction of imports by Brazil, Mexico and other heavily indebted countries that suddenly had to tighten their belts to make ends meet.

The other was a surge of Soviet diplomatic activity in the leading debtor countries, which are principally in Latin America.

The Soviets were expanding personnel in their Latin embassies by a factor of 10, a senior U.S. diplomat reported.

For some in the White House, deeper Marxist penetration south of the border posed huge dangers for the United States and the Western alliance. One of the scenarios envisioned was that U.S. troops might have to be withdrawn from Western Europe to be stationed along the Rio Grande.

There was no comfort from the economic numbers. U.S. exports to Latin America had fallen by about a third between 1981 and 1984. Per-capita income in Latin America was down by 12 to 15 percentage

points and unemployment was up. "Without a revival of capital inflows, the future for these countries is bleak," said Pedro Pablo Kuczynski, managing director of First Boston Corporation and a former energy and mines minister of Peru.

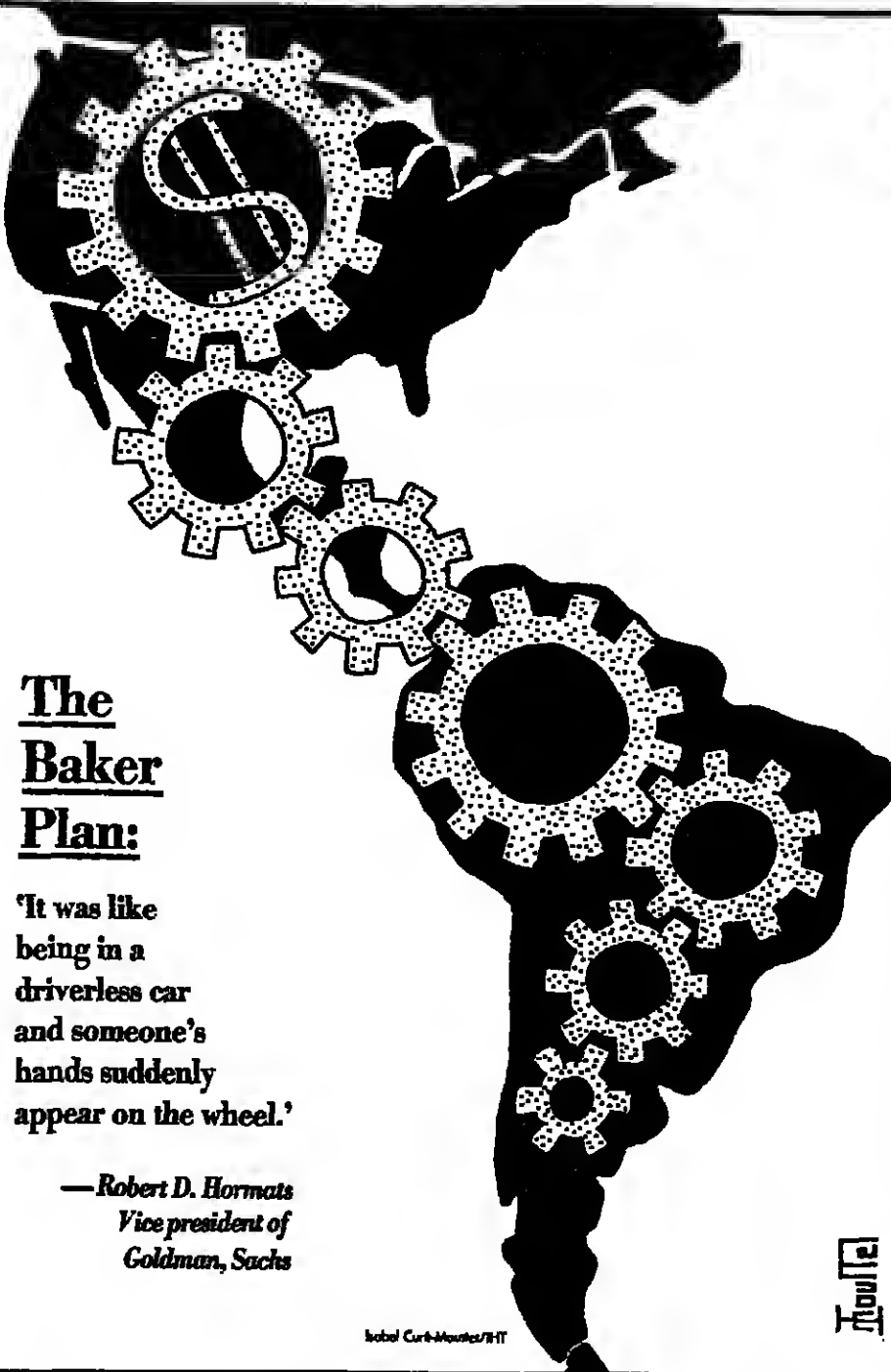
That Moscow was trying to capitalize strategically on the debt crisis and that industrial cities in the United States were fast losing export jobs because of the recessions in Latin America brought a chill to the muggy early fall in Washington.

What could be done? Administration officials agreed that the options were limited. "We just couldn't throw money at them," said a key policy-maker involved in formulating the so-called Baker plan.

That refers to the compact between debtors and creditors that finally emerged as the main theme of a speech before the annual World Bank and International Monetary Fund conference in Seoul last Oct. 8 by the U.S. Treasury secretary, James A. Baker 3d.

The compact was that creditor governments, commercial banks and the big international lending institutions would assure debtor countries of an adequate flow of money to finance economic growth. The 15 biggest debtors were slated to get an extra \$29 billion over three years.

But to qualify, the debtors (Continued on Next Page)



The Baker Plan:

'It was like being in a driverless car and someone's hands suddenly appear on the wheel.'

—Robert D. Hormatz, Vice president of Goldman, Sachs

Local Cur-Monster/711

At the Critical Point, Debtor Countries Look To a Political Solution

By Juan de Onis

RIO DE JANEIRO — The Latin American foreign debt situation is at the most critical point since the crisis began in 1982, when Mexico announced to the world that it could not pay its creditors.

The situation is dramatic because the Latin American economies, with the exception of Brazil, are not growing fast enough to maintain living standards and make debt payments at the same time.

The debt service is draining Latin America of the capital it needs for investment. It's like taking blood from a patient who needs a transfusion," said Radl Prebisch, an Argentine economist.

The sense of crisis is increased by the communications gap that exists between the Latin American debtors and the capitalist centers of economic policy-making.

For more than 18 months, the major Latin American governments have been seeking, without success, a comprehensive negotiation on the related problems of debt, development aid and trade with the Group of Five. This steering committee of the United States, Japan, West Germany, France and Britain dominates the Western trading system and international finances.

The most that has emerged as a policy response at the top level is the so-called Baker plan, offered by U.S. Treasury Secretary James A. Baker 3d last fall, to channel \$29 billion to the Latin American debtors over the next three years. The total is less than has been

flowing out of Latin America in each of the last two years to cover debt servicing. Without international measures leading to lower interest rates on the debt and expanded trade, the Baker plan leaves the Latin American debtors deeper in the hole.

Over the past four years, Latin America's developing economies have transferred abroad \$100 billion more than came into the region. The net loss in 1985 was more than \$30 billion, according to figures prepared by the United Nations Economic Commission for Latin America (ECLA).

ECLA's preliminary estimate is that there was only 2.4 percent growth in Latin America during the past year, even with Brazil, which represents 40 percent of the region's output of goods and services, growing more than 7 percent.

That means that in most countries the region's economic growth lagged behind population growth and job opportunities were insufficient to absorb new workers. Slums grew around the major cities, rural modernization remained little more than a dream and there was growing hunger, illiteracy and disease.

This malaise has been growing since Latin America stopped its rapid economic expansion of the 1970s, a period during which the foreign debt grew from \$20.8 billion in 1970 to \$170 billion at the end of 1979.

During this explosive growth of the region's foreign debt, ECLA's figures show a decade of economic growth at a healthy annual rate of 6

percent, compared with population growth of 2.5 percent. Per-capita income climbed during the decade to more than \$1,000 a year, at 1970 prices.

This process collapsed when capital flight began and international interest rates, led by the United States, climbed to three times more than those that prevailed during the 1970s. The disaster was compounded by the steady decline since 1980 of basic commodity prices. Both interest rates and terms of trade are factors over which the Latin American economies have no control.

The outward flow of capital poses a paradox that is seen by the region's democratic political leaders as unsustainable. Without a resumption of economic growth for the region's 375 million people, they say that the debt service cannot be paid as it is now structured.

The debtors are joining forces, not in a cartel but as a negotiating front. They are insisting that the debt situation can only be managed "politically" by sovereign governments since policy decisions on interest rates, trade and multilateral aid must be made by governments, not private bankers.

That is the unequivocal message that came out of the meeting on Dec. 17 in Montevideo of the foreign ministers and finance ministers of the 11-nation Cartagena group created by the debtors in that Colombian city in June 1984.

The international economy is going through a period of profound disequilibrium and no effort on our (Continued on Next Page)

Austerity — How Much Is Too Much?

By William A. Orme Jr.

MEXICO CITY — Latin American debtor nations, concerned about the political risks of their continuing industrial crisis, are beginning to question austerity measures of the International Monetary Fund at the same time that creditors are demanding that they take further steps toward market-oriented economic reforms.

Although they have not formulated a coordinated strategy as yet, several leaders have indicated that political priorities would take precedence over satisfying creditors of the region's roughly \$360-billion debt.

The campaign for a more flexible attitude on lending has been spearheaded by the three largest debtor nations — Brazil, Mexico and Argentina — as well as Peru, which, after threatening to pull out of the IMF unless it eased its austerity demands, unilaterally decided to limit its repayments to 10 percent of export earnings.

The threat to political stability in the newly redemocratized nations of the region — nine countries have switched from military to civilian rule since 1980 — was pointed out by Brazil's President José Sarney at a recent General Assembly meeting at the United Nations. "Brazil will not pay its foreign debt with recession, not with unemployment, nor with hunger," he said.

"We are faced with a dramatic choice: It is either debt or democracy," noted President Alan García Pizarro of Peru.

President Miguel de la Madrid,



President de la Madrid

'We saw the danger to de la Madrid in sending money to foreign banks in the aftermath of a natural disaster.'

—A New York banker

who was prevented from attending the meeting because of the earthquake disaster, had been expected to make the crucial point that Mexico, which has often been held up as a model of compliance with IMF measures, was still falling further into debt.

Mexico's creditors believe the country will again overshoot its announced economic targets this year and are demanding substantive "structural reforms" as the price of the \$2.5-billion commercial loan that Mexico is seeking for 1986. Western bankers and diplomats report.

"We sincerely believe that we are doing this for Mexico's own good, as well as our own," said a U.S. banker involved in the negotiations. "We're convinced that we

have a sick patient here, and if we don't do something to cure the disease, we're going to catch it ourselves."

Mexican officials argue in reply that they have already implemented major structural reforms, often at politically painful cost. Among the many significant steps taken by the government, its defenders note, is the dramatic turnaround of Mexico's historic pattern of trade deficits, paralleled by the controversial decision to join the General Agreement on Tariffs and Trade — a long-term commitment to tariff liberalization that is adamantly opposed by unions and most industrialists.

President de la Madrid's administration also has forced Mexico's powerful government-aligned

unions to accept continual industrial salary cuts, which, since 1981, have almost halved real median wages. Most importantly for creditors, the government has punctually met all its foreign loan commitments, publicly terming the debt's repayment a matter of "national honor."

Yet, debt obligations "cannot take precedence over the needs of the people," Finance Minister Jesús Silva Herzog warned in a November speech before Mexico's Congress but directed toward bankers. He added, "It isn't valid to think even for a moment that these needs might be sacrificed in the attempt to satisfy foreign creditors exclusively."

"Something has to give," Mr. Silva Herzog said. "The debtor nations are paying dearly for a problem whose responsibility clearly must be shared."

But Mexican politicians worry about that foreign debt servicing and domestic wage cuts already represent sacrifices that are undermining the country's ruling party and the political stability that it has maintained for half a century.

The tougher, more binding strings that banks are attaching to Mexico's 1986 loan package are portrayed by creditors as an outgrowth of the Baker plan.

When the proposal of U.S. Treasury Secretary James A. Baker 3d for fresh lending to debtor nations was unveiled last year, it was publicly welcomed by Mexican finance officials as an overdue U.S. recognition of "the political dimensions

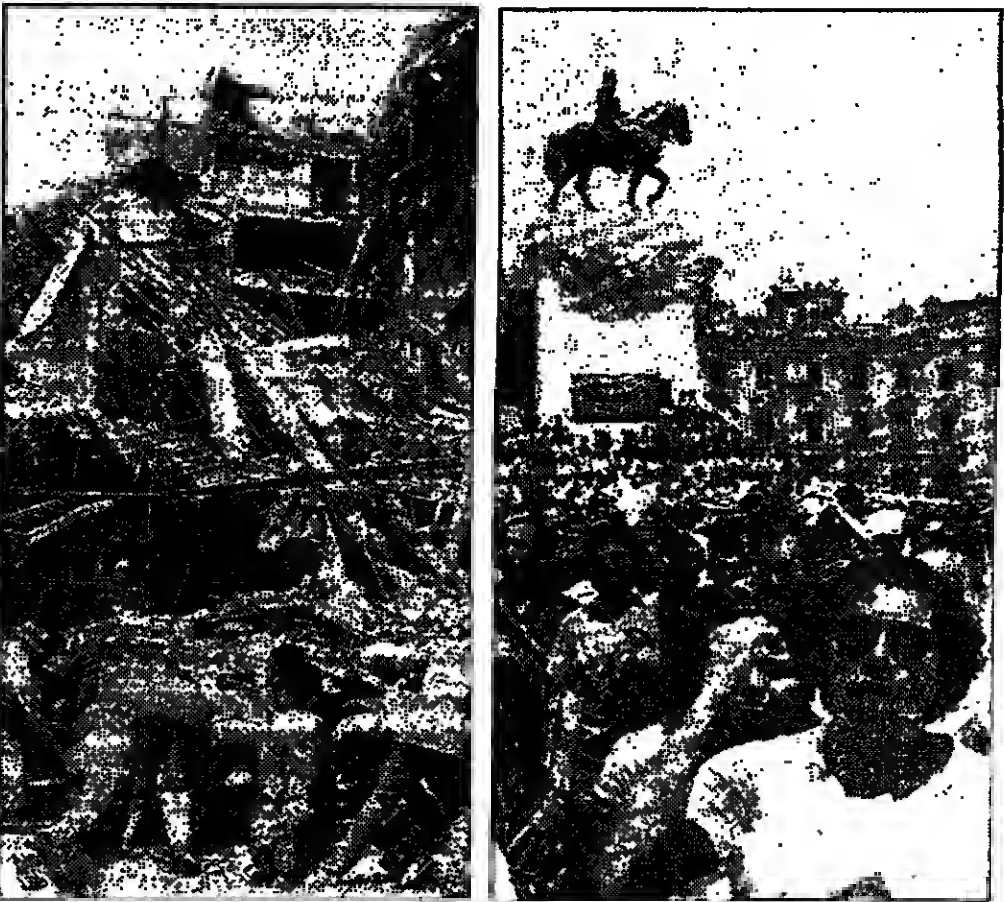
of the debt crisis" and as an implicit acknowledgment that International Monetary Fund budget-cutting strategies had failed to recharge the region's stalled economy.

But on the other side of the negotiating table, the Baker plan is saluted as an explicit U.S. endorsement of the need for stricter loan conditions than those imposed by IMF agreements. In contrast to the IMF, Mexico's commercial creditors are less interested "in percentages and monetary data than we are in trends," a major money-center banker said.

Decisions about Mexico's 1986 and future loan requests will be based on "subjective" judgments about government spending patterns and the private investment climate, criteria "which jibe perfectly with the premises of the Baker plan," he said.

Bankers are now saying that doubts about Mexico's economic outlook and the refusal of some smaller creditors to contribute to the new loan could delay its approval and disbursement until June. Mexican officials had hoped to receive funds from the credit by February or March, in part to offset the oil price decline anticipated for early spring.

Without an influx of fresh foreign credit, Mexico in the first half of 1986 will find it "extremely difficult" to substantially reduce its deficit, which is "by far the biggest single macroeconomic problem that Mexico now faces," a U.S. government economist said.



Last year's catastrophic earthquake in Mexico City, left, added to Mexico's already severe economic problems. At right, demonstrators in Lima during the election campaign that brought President Alan García Pérez to power.

"Internal interest payments are now a much more serious problem for Mexico than the foreign debt," a U.S. Treasury Department analyst said.

With the earthquake that struck Mexico City on Sept. 19 further straining the country's finances, the 1985 deficit swelled to 9.6 percent of GDP, according to Mr. de

la Madrid's November estimate. This was the government's worst fiscal performance since it started (Continued on Next Page)

The Urgent Priority: Finding Catalysts for Growth

By Pedro Pablo Kuczynski

NEW YORK — This year will mark the fourth anniversary of the Latin American debt problem, which started in Mexico in August 1982. An international financial catastrophe was averted at the time, as debtor countries cooperated with the International Monetary Fund in a major belt-tightening effort.

Almost four years later, it is clear that remarkable progress has been made in defusing the emergency. At the same

time, it is equally clear that there is not yet a clear direction of where to go next. The major debtors have suffered a 12-percent to 15-percent decline in their per-capita incomes, which puts them back where they were 10 years ago, but with larger and more restless populations.

It is urgent to get growth moving again. Otherwise, there is a danger that problems such as the fiscal, financial and social difficulties of Mexico in the last year could turn out to be more serious and thus jeopardize the efforts made so far.

A striking fact of the last three years is that the Latin American countries have basically paid for the heavy interest burden on their external debt, which was about \$35 billion to \$40 billion in 1985, including trade debt, or 35 percent to 40 percent of their export earnings. They have done this by cutting back imports by about 30 percent and building up a large trade surplus.

The surplus amounts to 3 percent to 4 percent of regional gross national product, or twice that of Japan in relative terms. There are two key points about the surplus. First, as long as countries are not able to import more, their growth will be stunted. There is obviously no need to go

back to the free-wheeling waste of 1980-1981, when whisky and cars flooded into Latin American countries and capital rushed out. But some growth in imports of equipment, parts and raw materials is essential. As long as the entire trade surplus has to be used up to pay interest, this is not possible. Secondly, the moribund state of the Latin American market has deprived major world exporters, such as Western Europe, Japan, Korea and Brazil itself, of a major "overflow" market. Pressure is thus put on these exporters to expand in the only large open market in the world, the United States, exacerbating protectionist tendencies there. Capital inflows are needed in order to get growth moving again. Since James A. Baker 3d, the U.S. Treasury secretary, outlined a plan for commercial banks to increase their lending to poor nations in Seoul in October, all eyes have been on the World Bank.

The World Bank and the Inter-American Development Bank have so far taken a back seat in the debt problem. They have increased disbursements significantly, but the net flows after recovery of interest and principal are still modest. The feeling in the multilateral development banks was that the first stage of the debt problem, namely a balance of payments crisis, was mostly a challenge for the International Monetary Fund. Now that it is clear that the road to recovery is a long one, a clearer response is needed from the development institutions.

For a temporary period, the development banks could raise the proportion of program costs they cover. This would be a form of balance of payments assistance, but that is what many economies need and this would have the advantage of being related to specific projects and programs rather than general-purpose aid. As economies revive, private investment will recover and so will investment from abroad. Wishing it and talking about it will not make it happen. The fundamental ingredient is a continuous period of realistic and consistent economic policies, particularly on exchange rates and fiscal policy. Deregulation and the elimination of stifling export taxes are fundamental.

A serious beginning has to be made on reducing the role of state enterprise. Argentina has made an auspicious start with the Plan Austral launched last June. Brazil and Mexico have started to sell off important state holdings. A portion of the \$25 billion or so that fled Argentina in 1979-1982 is ready to return, attracted by the new positive environment as well as by rather high domestic interest rates. The return of flight capital will be the first clear sign that the Latin American economies are really on the mend.

But the outlook is still uncertain. International economic expansion rests on fragile foundations, with a loss of dynamism combined with higher interest rates in the United States at least a possibility, despite forecasts to the contrary. Mexico needs a very large injection of funds to pay interest on its external debt in 1986, without counting additional needs if petroleum prices fall further. The revival of growth without too much inflation continues to be an elusive goal. Commercial banks are getting "debt fatigue" and increasing numbers of them are unwilling to put up more new money for debtor countries.

Fortunately, it has not been necessary to reschedule interest payments, an eventuality that could be expensive for the stockholders of major international banks and for the debtors themselves. If the world economy continues on a moderate upward course and cool heads prevail, less drastic remedies would be needed in order to continue forward.



Young Brazilian students in Paraná state, beneficiaries of the Inter-American Development Bank's Prorural development program. The plan has been praised as one of the most successful of its kind in Latin America.

INSIDE

SWAPPING FOR foreign debt has created one of the world's most unusual second-hand markets as the debt crisis continues. Page 10.

BRAZIL'S RECOVERY, now in its third year, has belied the pessimistic appraisals of its critics, a Brazilian banker comments. Page 11.

THE WORLD BANK needs to radically change its mode of operation to be effective, some of its critics in Brazil believe. Page 11.

THE SMALL-DEBTOR syndrome has resulted in crippling debt-service ratios for nine economically-troubled small countries. Page 10.

The writer is co-chairman of First Boston International and managing director of the First Boston Corporation, New York. The opinions in this article are personal.

CURRENT YIELDS... having a conversion premium of less than 10%... duration of symbols

A SPECIAL REPORT ON LATIN AMERICA

Swaps: The Making of an Unusual Market for Debt

By Nicholas D. Kristof

LOS ANGELES — One of the world's most unusual second-hand markets these days is for foreign debt.

Conducted largely in secret and regarded with some anxiety by the big New York banks, the market allows a bank or investor to purchase loans that banks want to rid of. The debt sells at a discount, ranging, say, from 10 cents for cash dollar of face value for Bolivian loans to about 70 cents on the dollar for the better-rated Mexican debt.

"It is growing each year, particularly as the Latin debt situation doesn't show signs of improvement," said Komal S. Sr-Kumar, a private consultant in New York on Latin American economies.

The sellers are primarily small, regional banks in the United States and abroad, who are fed up with the modest sums of Third World debt on their books. Sometimes they sell them outright for cash; more often they swap them for debt with which they are more comfortable.

Because the deals are conducted in secret, no one has a clear idea of how many trades and sales occur. But by all accounts, business is growing quickly and volume is in the billions of dollars.

Mr. Sr-Kumar, in a recent study, estimated that \$3 billion to \$4 billion of debt turns over in the secondary market each year. That is still a small fraction of the roughly \$360 billion that Latin American nations owe to banks in the United States, Europe, Japan and elsewhere.

Debt Trading Prices (per dollar of face value)

Argentina	70 to 73 cents
Brazil	78 to 82 cents
Bolivia	10 cents
Chile	65 to 70 cents
Mexico	70 cents
Nicaragua	10 cents
Venezuela	77 to 82 cents

still grappling with the implications of the second-hand debt market. Some herald the market as a way to ease the world's debt problems, by allowing banks holding Third World debt to reduce their exposure.

"It means that banks don't need to live with their mistakes," said Giacomo de Filippis, an investment banker in New York who pioneered the debt market.

The World Bank has discussed the secondary market in that context and some academic economists have urged the International Monetary Fund and the Reagan administration to encourage the market by functioning as an intermediary. Others are less sanguine.

Some big banks, in particular, feel that sales and swaps of loans could encourage the perception that their loans to Argentina, Brazil and other countries are worth much less than their book value. Furthermore, small banks may be less willing to provide fresh money to debtors, as required in debt rescheduling packages, if it is

clearly that the new loans will instantly be worth less than their face value.

The big banks also believe that the secondary market has relatively little to offer them, because they have far too much Latin debt to sell or swap.

Ironically, while executives on the leading side of some big banks disdain the secondary market, executives in the trading divisions of the same banks are eager to enter the business because of the potential for big profits. For example, tensions reportedly have arisen at the United States' largest banking company, Citicorp, between executives involved in lending and those who have set up a group that arranges sales and swaps of debt by other institutions.

Price quotations for debt are unreliable because they change and because the market is small, particularly for outright sales. But they do give an indication of the creditworthiness of a country. For example, last summer, Mexican debt traded for 80 cents to 85 cents for each dollar of face value. Today, in the aftermath of the September earthquake and Mexico's financial difficulties because of falling prices of the oil it exports, Mexican debt sells for about 70 cents on the dollar.

Other recent price quotations include: Chile, 65 cents to 70 cents on the dollar; Venezuela, 77 cents to 82 cents; Argentina, 70 cents to 73 cents; Brazil, 78 cents to 82 cents; and Nicaragua and Bolivia, about 10 cents.

Although most of the trading involves Latin American debt, more and more of it has spread to Asian and East European loans. U.S. banks

have been particularly willing to sell Polish loans, because these are already written down on their books and the bank does not need to record a loss to sell it. Poland is quoted at about 50 cents to 53 cents on the dollar, Romania at 75 cents to 80 cents, and Yugoslavia, 72 cents to 76 cents. Loans to the Philippines sell for about 63 cents to 67 cents on the dollar.

These prices do not mean, of course, that they reflect the real value of the loans. Some banks will accept what they believe is an unreasonably low price for a small amount of debt simply so they can assure investors and depositors that they have no Latin American debt on their books.

"It's a distress market, and I think it understates the value of debt," said William R. Cline, a fellow of the Institute for International Economics in Washington. "It's not a very meaningful market."

The big players in the market, in terms of arranging deals, include such major financial services companies as Shearson-Lohman Brothers, Drexel Burnham Lambert, Salomon Brothers, Bankers Trust and Bear Stearns & Co. Some European financial institutions, such as Lazard Frères, are also involved.

Some small investment banks have also specialized in the secondary-debt market. These include Giadefi Inc., which is run by Mr. de Filippis, and Leslie Weiner & Co., both in New York.

Buyers include a variety of people and institutions. Some European banks believe that the loans are a worthwhile risk at the current discount. Sometimes a bank within a developing

Some banks will accept an unreasonably low price for a small amount of debt so they can assure investors and depositors that they have no Latin American debt on their books.



For example, a Chilean bank might buy Chilean government debt from a Massachusetts bank.

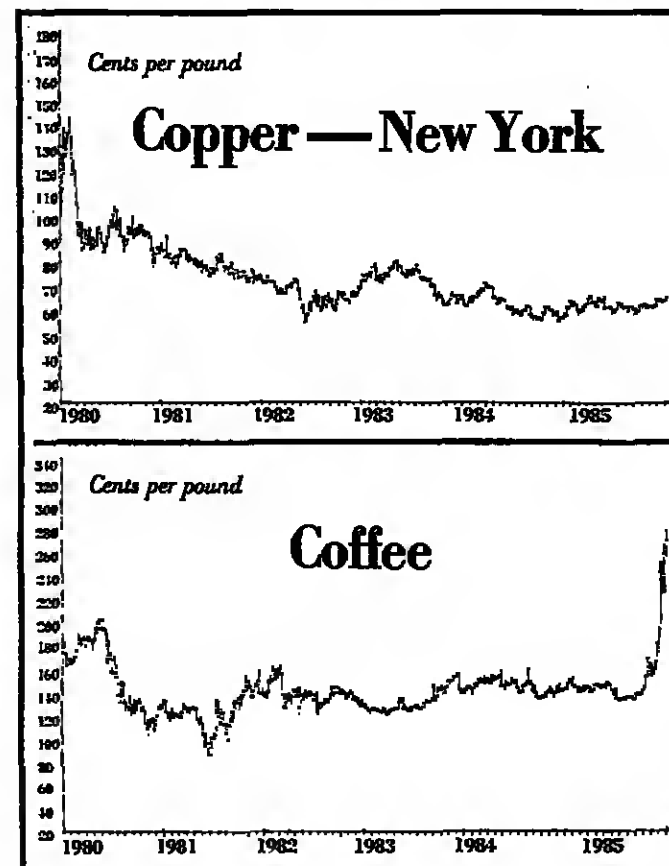
In the case of Brazilian and Chilean loans, moreover, the governments of those countries have established incentives to encourage private companies to buy foreign debt. Bankers Trust reportedly recently purchased a Chilean pension fund management company for \$40 million of Chilean government debt that it had on its books.

Or a multinational company wishing to build a \$10-million plant in Brazil might agree to buy

\$10 million of Brazil's foreign debt, for about \$8 million, and present it to the Brazilian central bank in exchange for \$10 million worth of Brazilian currency.

Some private individuals have also been buying the most heavily discounted loans, such as those of Nicaragua or Bolivia, dealers say. Drexel Burnham Lambert reportedly has been particularly involved in such deals.

"It's taken a while for institutions to become aware of the market," said Stephen M. Cunningham, who arranges deals for Bear Stearns. "We think it's going to continue to grow."



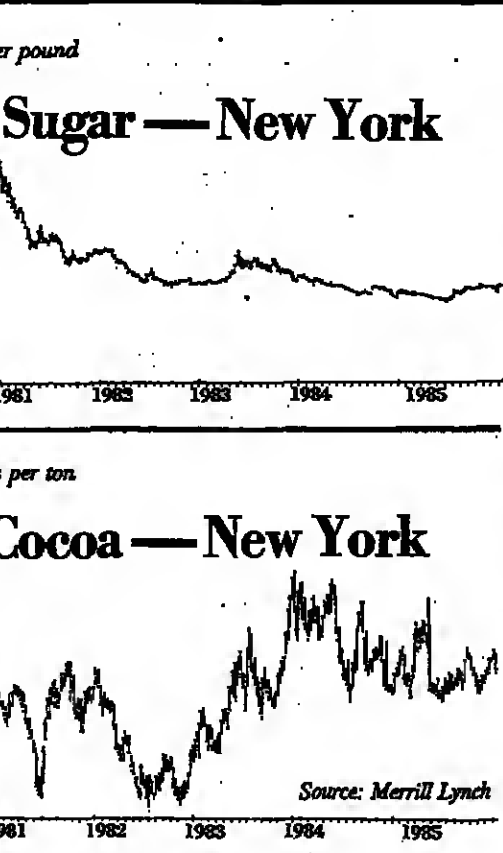
Commodities: Oversupply and Falling Prices

"THE MORE they produce, the more they depress prices. But because they need the money, they can't stop."

This view from a Chase Econometrics director on the commodities crisis confronting cartels, is particularly applicable to Latin America, where falling prices have left most producers in disarray and exacerbated the already severe debt problems of the region.

As inflation abates in the major industrialized nations, the prices of tin, sugar, cocoa, copper, wheat and coffee — the bulk of most Latin American exports — have all come under pressure.

Brazil and Colombia, major coffee producers, have kept prices at a reasonable level by limiting output. Bolivia estimates that revenue from tin sales, which accounts for about a third of its exports, could be drastically reduced.



The Small-Debtor Syndrome: Higher Debt-Service Ratios

By Richard Lapper

SAN JOSE, Costa Rica — "We're suffering from the small-debtor syndrome," said Emilio Rodriguez, Costa Rica's special adviser on external debt.

Costa Rica's \$4.5-billion foreign debt may not cause many bankers to lose sleep, but as Mr. Rodriguez said, "Whenever you look at it, the small debtors have provided the highest debt service in the world. We face the toughest conditions and we have the least capacity to pay; the renegotiation of the debts of small countries creates little international interest."

As if to underline his point, a conference organized here in early December by Mr. Rodriguez and attended by leading government figures from nine small debtor countries — Guatemala, El Salvador, Panama, Costa Rica, Nicaragua, Honduras, Jamaica, Bolivia and the Dominican Republic — passed by largely unopposed in the United States and Europe.

In a joint communiqué, the nine countries agreed that they face tougher renegotiations and harsher conditions simply because they lack the political muscle of countries like Brazil and Mexico.

On the whole, in the two rounds of debt renegotiation since 1982, these nine smaller debtors, whose total combined debt is less than a third of the Mexican debt, have been given shorter grace and repayment periods and have had to pay higher interest rates and commissions.

According to evidence presented to the San José conference by a U.S. academic, John Williamson, the attitudes of the commercial banks are shared by the International Monetary Fund, which has been much tougher with smaller debtors and generally refused to make multilateral packages available to them.

As a result, whereas the debt-service ratios (the proportion of debt repayments measured against exports of goods and services) of the bigger countries are hovering around the 20-percent to 30-percent mark, for the smaller debtors it is frequently more than 50 percent. This undermines the potential economic recovery necessary for growth and solvency.

The smaller countries have limited capacity to generate domestic investment. In addition, their economies are dependent on a narrow band of export commodities, almost exclusively agricultural, whose prices, with the notable exception of coffee, have tended to decline relative to the prices of principal imports, such as oil and capital goods.

Moreover, as Christin Bogdanowicz-Bindert, an economist, told the conference, the debt crisis of the smaller countries predates the 1982 Mexican crisis, undermining the more serious structural problems of the smaller countries. Costa Rica defaulted on its debt before renegotiating its debts in the 1970s.

The debt-service burden in Central America is a key factor in Guatemala's economic crisis and, to a lesser extent, in Panama's.

Meanwhile, a formal default by Nicaragua, which has all but ceased payments on its \$4.5-billion debt, could be the death knell for the country's mixed economy and would probably spur a formal entry into the socialist camp.

The 1986 debt-service bills vary. Nicaragua owes \$1.2 billion, including overdue payments, an amount equivalent to more than three times its projected export revenues. Guatemala owes \$500 million, about 50 percent of potential revenues.

The Panamanian debt, the highest per-capita debt in the world, has grown abnormally because of the free convertibility of the dollar of the local currency, the balboa. This means the government has virtually no control over the local money supply and is entirely dependent on external indebtedness to meet deficits.

Meanwhile, the precarious economic recovery in El Salvador and Honduras, closely linked to the economic aid that they are receiving from the United States, is imperiled by the debt burden. On paper, El Salvador and Honduras have manageable debt services, largely because of the favorable repayment terms for the U.S. bilateral aid that forms a large part of their aid package. Nevertheless, service payments still amount to around 20 percent of exports, a figure considered high 10 years ago, Mr. Bogdanowicz-Bindert said.

In Costa Rica, Central America's most successful stabilization program and economic turnaround is undermined by debt-service obligations. Next year, these obligations will amount to about \$470 million, half the anticipated export earnings — if the government that takes over following elections in February can renegotiate repayments successfully.

The irony is that the export-led growth favored by the international financial community could occur in the smaller countries, according to the president of Costa Rica's central bank, Eduardo Lizano.

He said: "From a trade point of view, small is beautiful; from a debt point of view, it is ugly. Whereas countries like Mexico and Brazil are registering massive trade surpluses but are still not able to grow, for small countries like ours export growth is a real possibility. We could seriously expect to increase our exports by \$150 million, and that would have a serious economic impact. But on the debt question, we have no leverage at all and just don't see how we can cope unless we can reduce interest payments."

Mr. Lizano said he hoped that "since the industrialized countries don't have all that much to lose with them they may be prepared to entertain new ideas."

Among these ideas would be the possibility of sympathetic governments — Mr. Lizano mentioned the Netherlands — buying Dutch banks' Costa Rica debt and relending the money at lower rates of interest.

In the short term, Costa Rica and the other small debtors will be pushing for extra funds from the commercial banks for development purposes. Mr. Lizano is aiming to obtain about \$100 million in fresh money this year. He acknowledged, however, that "it's going to be tough; the commercial banks just don't want to lend fresh money."

Costa Rica's progress will be indicative. Since 1982, it has been an exemplary debtor and not a paragon of debtor's cartel arrangements.

"We've respected our commitments, introduced austerity and made sacrifices to keep within agreements; we've therefore a moral right to protest about the injustice in our treatment," President Luis Alberto Monge of Costa Rica told the conference.

But will the international financial community respect such integrity? When Mr. Rodriguez visited Washington earlier this month to speak to Treasury Secretary James A. Baker 3d, his advisers were pessimistic about his reception. The third round of renegotiations was going to be just as difficult as the first two.

Debtor Countries Looking to a Political Solution

(Continued From Previous Page)

part alone to adjust will be sufficient since the situation cannot be allowed to continue," said the final declaration at Montevideo. The ministers proposed negotiations on a broad range of related issues, including interest-rate reduction, improvement in basic commodity prices, expanded access to the markets of industrial countries and an increase in development aid through the World Bank and the Inter-American Development Bank.

"If the proposed set of measures are not adopted, the region will enter an extremely serious situation that will necessarily oblige us to reduce the net transfer of resources to avoid greater political and social instability," they said.

This has been widely interpreted as a warning that a moratorium on debt payments is a possibility if the creditors do not sit down with the debtors and begin negotiating.

The private bankers who hold the region's debt of roughly \$360 billion deal with the problem in each debtor country with a loan rollover here, a patchwork of new loans there, and an overall sense of anxiety.

None of the publicized refinancing plans, such as those with Mexico and Argentina, are working well. Mexico has more inflation and less growth than was planned. Argentina

has less inflation but virtually no new investment. Political unrest led by labor unions is rising because President Raúl Alfonsín has not produced an economic recovery.

Chile, the most authoritarian and economically "orthodox" regime in the region, remains an economic cripple, due largely to the collapse of prices for its main export, copper. The banks loaned Chile \$760 million in December so it could pay its \$2 billion in debt service this year. Economic growth is slumping at 2 percent a year.

President José Sarney, seated with Brazil's \$100-billion debt, has not reached a refinancing agreement with the banks because he insists on a high growth policy that ignores the austerity recommendations of the International Monetary Fund.

So far, Brazil's economy under Mr. Sarney has responded with 7 percent growth in 1985. The country's large agricultural base and advanced industrial structure generated a \$12-billion trade surplus in 1985 for the second year running.

But the Brazilian economy needs new injections of capital now to keep up the growth based on a combination of exports and domestic demand. It also has to reduce inflation, which raised prices 233 percent in 1985.

While Brazil pays its \$11 billion in annual debt interest

punctually, some Latin American debtors, such as Peru and Bolivia, have failed to keep up even with interest payments.

It is hard to see how these poor economies, heavily dependent on the price of basic commodities, which are at the lowest levels in years, can recover without a coordinated international effort.

Senator Edward M. Kennedy, Democrat of Massachusetts, during a trip to five South American countries in January, proposed something like a new version of the Alliance for Progress, the aid program created by the late President John F. Kennedy for Latin America but which was abandoned by 1970.

The emphasis of the Alliance for Progress was on social reforms, with financing going toward low-cost housing, schools, health services and rural modernization, such as water works. But the nature of the crisis now is more international, with the structure of the trade and financial relations between Latin America and the industrial West at stake.

"The crisis is too serious and the stakes are too high for either side to leave the problem up to the bankers," Mr. Kennedy said. "Governments themselves must be involved in ways that strengthen, not starve, democracy in the Americas."

Behind the Baker Plan: Trade — And the Kremlin

(Continued From Previous Page)

had to take market-oriented steps to make their economies more efficient. They were urged to strengthen private enterprise, improve investment opportunities, reduce their swollen public sectors and cut inflation.

These were tough conditions for countries where huge "para-statal" as the state-owned enterprises are called, controlled vast industrial sectors and where foreign investment of previous years had left deep scars.

Yet, so desperate was their plight

that some countries started moving in this direction. Mexico sold off to private investors state-owned hotel chains and some industrial holdings. Brazil sold a portion of the state oil company to private investors. Argentina opened its oil industry to foreign investment. Ecuador signed an investment treaty with the United States.

The conditions were politically tough as well for the United States, where the administration could count on being pilloried in Congress for anything that resembled a bailout for imprudent lending of commercial banks.

Mr. Baker qualified the pledge by saying that only when the plan was working and the need for new World Bank funds became apparent would the administration ask Congress for the money.

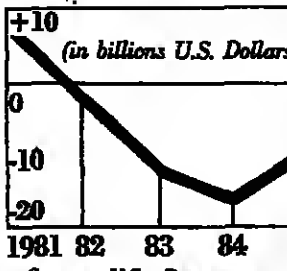
This may not be until next year. At the moment, the administration still has to decide on the man who will head the bank over the next five years, succeeding A.W. Clausen, who steps down June 30.

Just how any new request for funds for the World Bank will play out against the automatic budget cuts forced by the so-called Gramm-Rudman law to balance the U.S. budget remains an open question.

"If countries are willing to perform significant reforms opening up their economies and showing that the program is working, then I think we can sell the Congress," said James W. Cowroy, deputy assistant secretary of the Treasury for developing nations. "If the program isn't working," he added, "we are in the soup."

Thus, the United States has emerged as an active rather than passive player in the debt crisis.

U.S. Trade Balance With Latin America



Source: U.S. Department of Commerce, October 1985.

Before the Seoul speech, on Sept. 22, Mr. Baker had worked out a plan with the finance ministers of the Group of Five — Britain, France, West Germany, Japan and the United States — that triggered a further slide in the value of the dollar. The dollar is now about 25 percent below its highs of last February and about 10 percent below the levels of Sept. 22.

This, too, was crucial to stopping the erosion of U.S. trading accounts and saving export jobs in industrial cities. A weaker dollar makes American goods more price competitive. It also helps debtor countries because most of the estimated \$1 trillion of the international debt, two-thirds of which is held by commercial banks, is denominated in dollars.

Then, on the weekend of Jan. 19-20, at another meeting of the Group of Five finance ministers, Mr. Baker pressed his colleagues to work toward lower international interest rates. A rate cut of one percentage point would annually save countries like Brazil and Mexico nearly \$1 billion each.

The new activism has been well received. "It was like being in a driverless car and someone's hands suddenly appear on the wheel," said Robert D. Hornstam, vice president of Goldman Sachs.

The Baker plan was less a plan than a flexible approach toward the debt problem, with the emphasis on economic growth, not austerity. Mr. Baker has said repeatedly that he thinks there is "no alternative" to what he has proposed.

Initially, debtors found the approach good as far as it went but said that they needed more help.

Finance and foreign ministers of 11 Latin American countries met in Montevideo in late December and made several specific demands: a sharp decline in international interest rates, which the industrial countries now say they want, too; a boost in annual bank lending, which is foreseen under the Baker plan; concessional terms in existing debt but a promise to pay market rates on new loans, and some linkage between interest payments and minimum growth targets.

But the tone was not confrontational, the demands were not ultimatum, there was little talk of a debtors' cartel. Even though some countries have set ceilings on interest payments, the Baker plan has set the framework of a continuing dialogue. There was encouragement as well from the slight pickup in world economic growth.

"As a whole, countries with debt-servicing problems are now growing at about 4 percent a year, or nearly three-fourths the rate from 1967 through 1976," said William R. Rhodes, chairman of the restructuring committee of Citicorp. "The overall situation is better than some have portrayed it to be."

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الشرق الأوسط

A SPECIAL REPORT ON LATIN AMERICA

Brazil's Recovery Belies The Pessimistic Appraisals

By Marcilio Marquez Morticia

RIO DE JANEIRO — The Brazilian economy is in the third year of a surprising recovery that has confounded critics of its high level of external debt.

The current performance of the world's largest developing-country debtor requires a reappraisal of how debt was used. In response to the first oil shock of 1974, Brazil opted for growth and structural changes in its economy through increased foreign borrowing.

COMMENTARY

The fundamental factors of Brazil's trade performance since 1983 grew out of the major investment programs launched in the mid-1970s, which are now becoming fully operational.

These concrete results confirm the diagnosis that sees the Brazilian response to the first oil shock as a bold effort to meet the crisis through a structural adjustment of the country's economic framework.

This strategy aimed at creating a modern and competitive economy by redirecting the growth process toward providing internal solutions. The country's energy matrix underwent a mutation, with investments that multiplied domestic petroleum production, substituted alcohol for gasoline and tapped huge hydroelectric sources.

The capital goods industry was consolidated and the economic infrastructure was radically modernized, as exemplified by a telecommunications revolution.

In general, the competitive, tradable portion of GNP expanded briskly, blurring the frontiers between export and import substitution sectors. In many cases, the new investments displaced products from the import to the export side of the trade balance.

It took time for the new investments to mature. There were errors in dimension and scope. The incidence of the second oil shock in 1979, accompanied by skyrocketing interest rates and plunging commodity prices, multiplied the cost of the programs beyond what could reasonably have been foreseen.

This increased burden was felt heavily in the early 1980s, a period of debt combined with recession, when the country lost more than 10 percent of its per-capita income.

Despite the challenges posed by unresolved problems, among which are inflation and the heavy social debt, the country's economic structure underwent a complete overhaul. The decisions of the 1970s, besides providing an infant political liberalization program, continued a modernization process that has transformed Brazil in the last 30 years.

During this period, the economy, which had been predominantly agricultural, became industrial. It became increasingly complex and expanded at one of the highest sustained rates of growth in the world.

Society was urbanized and changed its occupational profile at a breathtaking pace. The population became more educated and more politically conscious, while life expectancy increased.

In this process of transformation, Brazil borrowed to invest (gross fixed capital formation averaged 30 percent in the mid-1970s) and out to consume; neither was debt incurred to purchase arms or to fund capital flight by its citizens.

The link between past debt and economic transformation provides a better understanding of the breadth of opportunities that lie ahead for the Brazilian economy if the so-called debt problem is placed in the broader context of financial flows that may be necessary to meet exchange or savings gaps that would otherwise constitute a bottleneck for development.

It is of paramount importance that international agencies, governments and commercial banks devise imaginative and efficient ways to recover their capacity to play a positive role in support of the future capital needs of developing countries, instead of remaining mesmerized by the problem of the accumulated past debt.

The debt problem, of course, requires an urgent, fair and rational long-term solution. Amortization terms must be extended so that maturities match capacity to pay. Spreads and fees must be reduced drastically. Monitoring provisions must be adjusted to the social and political realities of the borrowers, who must retain autonomy in deciding their economic and social priorities.

New money should be provided whenever required to meet pressing needs. Debt agreements should also provide revision clauses to shield borrowers from wild gyrations in the main international economic indicators — developed countries' growth, interest levels, the price of oil and other commodities, exchange rates and inflation.

Both lenders and borrowers should include any solution to the debt problem in a broader strategy aiming at rethinking and restructuring the existing system of interwoven financial, trade, investment and technological flows.

Brazil appears to have the capacity through the end of the decade to generate substantial trade surpluses.

The circumstances described above show that neither Brazilians nor their creditors should spend all their energy in focusing on the problem of past debt. Instead, the best of those energies should be reserved to seize, whenever timely, the opportunities for future credit that will support the task of economic development and social reform within redemocratized societies.

The writer is a director and member of the board of Unibanco S.A. He is preparing a study of Brazilian debt for the Twentieth Century Fund.



Agricultural experts and farmers study problems and view results in fields near Resquissa, Brazil.



Prorural: A Lesson in Multilateral Lending

By Sue Branford

TUUCAS DO SOL, BRAZIL — The tough "stabilization" programs imposed on Latin American debtor nations have produced results — but not without cost. Gains in trade resulted from reduced imports rather than expanded exports; and while living standards improved over 1984 they still fall far below levels of the previous decade.

However, banking on better terms of trade and wider access to the markets of industrialized nations, entrepreneurs from Mexico to Argentina are using multilateral lending to push ahead — and succeed — with domestic development in the face of austerity.

The Prorural farmers' assistance program in underdeveloped Paraná state in Brazil has been one of the more successful rural-development projects financed by an international financial institution.

"For me, personally, Prorural has been my salvation," said Antenor Batista da Rocha, president of the Association of Farmers of Tjuacas do Sul, an impoverished community in the state of Paraná, southwest of São Paulo.

"Until it brought us the health post in the village, I didn't have any peace. As one of the very few people with a car, I was always having to take people to the nearest hospital, which was 100 kilometers away."

Mr. Antenor went on to describe the progress being brought by Prorural, which is partly financed by the Inter-American Development Bank (IDB). "It's not just health care," he said. "We've got new roads, warehouses and, what for me is the most important thing of all, schools. Before Prorural, it was no use our working hard and producing a large surplus of rice or beans, because there was nowhere to store it and the roads were so bad that you often couldn't get it out to sell."

Mr. Antenor's association, which was set up in November 1983 at the suggestion of Prorural technicians, has 130 members. They all have small farms, no more than 10 hectares (25 acres) on average. Only five or six have tractors, the others plow with horses. They grow rice, corn, beans, oats, potatoes and soybeans. All are subsistence farmers, only selling on the market if they have a surplus.

Audálio Teixeira de Lima, a Prorural agronomist who provides the association with technical assistance, said the members were responding enthusiastically to the new opportunities. "Several months ago," he said, "we suggested that they buy fish tanks, so that they could supplement their diet and sell another product on the market. We were a little bit cautious at first, as we thought that they might be suspicious of such a strange new idea. But the response has been fantastic."

Prorural is one of the IDB's most successful projects. Its total cost is \$176 million, of which the IDB is providing \$80 million (\$50 million from the bank's own capital and \$30 million from the Brazilian fund in the bank) and the Paraná state government the rest.

Prorural is an integrated project, providing varied assistance: rural credit, technical aid, road construction, education, sanitation and health centers. Its primary objective is to bring development to a huge, backward area where the average annual income is \$300. It hopes to benefit 50,000 small farmers.

Why is Prorural succeeding when so many other projects financed by international financial institutions end in failure? The answer seems to be that Prorural has effectively combined a high level of popular participation with dedicated and efficient support from government officials.

When José Richa became the state's governor in March 1983, the project had already been set up, but in conventional, paternalistic fashion. Very few of the small farmers who were supposed to be its beneficiaries even knew of its existence.

Mr. Richa decided to change this. In the second half of 1983, state officials held a series of meetings in the districts that were to be affected. After explaining to the people what the project was attempting to do, they told the farmers that, as resources were limited, priorities would have to be established: What did they want first in their district? The local people made their choice, most putting roads first, then health centers, then schools.

Since they were involved from the beginning, the people have been following closely the construction works and have called for action whenever a problem has arisen.

The project has had its share of problems. It should have been finished by April of this year, but the completion date has had to be postponed until Jan. 1, 1987. Under financial pressure, the Paraná state government had to reduce its counterpart funds from \$133 million to \$96 million. It was able to negotiate this reduction with the IDB without serious conflict.

Because the project was budgeted in dollars in 1982 and the cruzero has suffered heavy devaluations since then, there are ample financial resources. The officials are, in fact, managing to surpass original targets.

But will this satisfaction continue once the amortization of the loan begins? The state government has a grace period of five and a half years. But then it will have to start paying back the loans, in dollars. It is already paying interest of 8.25 percent a year on the loan of \$50 million supplied from the IDB's capital. The same exchange factor that today means ample resources in local currency will create additional repayment difficulties in the future. It will be a big burden for a relatively poor state. But officials from the state government say that extra tax revenue from the benefited region will offset the cost.



A Brazilian girl gets fresh water from a Prorural village development project.

8.511.965 km²

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The Bank that's on your side

or Syndrome vice Ratios

The Pan-American debt is the highest percentage of the world's gross domestic product. This means the government has had to spend over the last three years to meet its obligations. The debt-to-GDP ratio is 100 percent. The Pan-American debt is the highest percentage of the world's gross domestic product. This means the government has had to spend over the last three years to meet its obligations. The debt-to-GDP ratio is 100 percent.

In Brazil, the World Bank Is Not Without Critics

SAO PAULO — As other Latin American countries seek ways to reverse the outflow of debt-servicing capital by attracting fresh funds, Brazil hopes to resolve part of its financial problem through the World Bank.

Planning Minister João Sayad said in December that over the next 18 months Brazil would set up a series of projects with the bank that should bring in \$3.5 billion from the institution, as well as \$800 million in a cofinancing program with commercial banks.

This hard currency is sorely needed in Brazil. Because of its excellent trade performance, with a surplus of \$1.1 billion in 1984 and \$12.4 billion in 1985, Brazil has been managing to pay the interest on its huge debt and build up its foreign reserves. It is this which is enabling the country to go its own way and to refuse to make an agreement with the International Monetary Fund for another austerity program.

But Brazil is paying a price for this independence. Almost all available public money is going into the servicing of its internal and foreign debts or into funding essential social programs. The World Bank financing would thus be doubly useful, in providing hard currency for foreign debt servicing and resources for investment in urgently required development projects. Part of the money, \$400 million from the World Bank and \$800 million in cofinancing, would go to the electricity sector, an area of the Brazilian economy that is in desperate need of injections of capital. Other loans might go to the steel sector, which is also hard pressed.



A.W. Clausen, president of the World Bank, which has come under criticism recently in Brazil.

changes if the bank is to make a real contribution to development. The first difficulty mentioned by the Brazilian officials is operational. The bank sets up its projects with federal, state or municipal governments. It supplies about 35 percent to 40 percent of the cost, while the rest is provided by the local authority in counterpart funds. The bank operates under a local system of reimbursement in which the local authority makes the initial outlay and is then repaid.

As the Brazilian government has been making an effort to cut the public deficit, local officials have faced serious difficulties in coming up with the counterpart funds. The World Bank attempted to help in the early 1980s by setting up a Special Action Program so that it could disburse, ahead of schedule, its part of a financing program. Thus, it provided 55 percent or even 60 percent of the annual disbursements, while not altering its overall share in the total investment.

The relief was effective in the short term, but now Brazil is paying the price, for it is having to contribute even more than its customary 60 percent to 65 percent to make up for the World Bank's heavy disbursements in the early years. These difficulties have led to delays in almost all of the bank's projects. As a result, disbursements were down sharply last year, probably to less than half of the original target of \$1.2 billion. As interest payments were estimated at \$342 million, and the commitment fee at \$25 million, Brazil was probably left with a net inflow of only \$250 million.

A second difficulty concerns the cost of the financing. The interest rate charged by the World Bank, though fixed, accompanied the upward trend in the floating rates on the world market. As a result, the cost of the financing rose steeply in the early 1980s.

Brazilian officials point to a series of 10 loans, worth a total of \$1 billion, which were signed in late 1981 and early 1982, with an interest rate of 11.6 percent.

Today, these loans cost Brazil more than they would have if they had been contracted at floating rates. The officials also object to the commitment fee of 1.25 percent, which is charged on all funds yet to be disbursed.

At most, they say, this fee should be charged on the resources earmarked for disbursement in that financial year.

One official said the World Bank had lost its original development function and had become "one gigantic credit card company."

But, if Brazil urgently requires new foreign resources, what alternative does it have to the World Bank?

The officials recognize the dilemma, but have one radical proposal: Brazil should screen all its current World Bank projects, pushing ahead with only a very few.

It should then ask the bank for the disbursement of the \$3.4 billion that is owed in nondisbursed funds for projects already approved. This, they said, could provide Brazil with the new money it requires.

—SUE BRANFORD

New Eurobond Issues

Compiled by Laurence Desvillettes from information supplied by European bond traders.

Table of Eurobond issues with columns for Issuer, Amount (millions), Mat., Coup-%, Price, Price end week, and Terms. Includes sections for Floating Rate Notes, Fixed-Coupon, and Warrants.

Bonds Mixed As Investors Ignore News On Economy

By H.J. Maidenberg New York Times Service NEW YORK — The Treasury securities market has largely ignored recent economic news, dealers say.

U.S. CREDIT MARKETS

The latest money-supply figure, which was larger than expected. Prices of Treasury securities were narrowly mixed in light trading Friday, with short-term rates slightly lower and the yields on the longer-term maturities moderately higher on the day.

Dealers said most retail buyers moved to the sidelines after a brief flurry of buying of Treasury bills early in the day. The buying was provoked by rumors on Chicago's financial futures markets, which later proved baseless, that the Federal Reserve planned in cut its discount rate.

"After the silly rumors were put to rest, the market quieted down and began focusing on the Treasury's mid-quarter refunding, the terms of which are expected to be announced Wednesday," said El-Elot Platt, director of government securities research at Donaldson, Lufkin & Jenrette.

One news item that was not ignored, dealers said, was the sharp drop in the dollar after Noboru Takeda, Japan's finance minister, said a stronger yen would be acceptable. If yen-denominated securities react positively, several dealers said, Japanese investors might reduce their purchases of U.S. Treasury debt issues.

But Mr. Platt said the Treasury would not increase its borrowings this quarter. "In fact, we expect the Treasury's next refunding to total \$23.25 billion and total borrowings for the quarter to be about \$36 billion in order to have a \$15-billion cash balance by March 31," he said.

In late trading in the secondary market, the discount rate on the current Treasury 90-day bills fell two basis points, to 6.96 percent. Among the intermediate-term Treasury coupon issues, the new 8 1/2-percent notes of 1988 rose 3/32, to 100 3/32, to yield 8.09 percent; the 9 1/2-percent notes of 1991 5/32, to 101 23/32, to yield 8.69 percent, and the 9 1/2-percent notes of 1995 8/32, to 100 4/32, to yield 8.16 percent.

At the longer-term end, the new 9 3/4-percent bonds of 2006 rose 3/32, to 98, for a yield of 9.60 percent, and the benchmark long-term bond, the 9 1/2 percent, was unchanged at 104 19/32 to yield 9.41 percent, compared with 9.44 percent a week earlier.

Institutions Show No Reaction to Fed Proposals

By Carl Gewirtz International Herald Tribune PARIS — The recent capital adequacy measures proposed by the Federal Reserve Board, aimed at inhibiting some of the riskier business U.S. banks undertake, show no signs of having any effect on the international credit market.

INTERNATIONAL CREDIT

balance-sheet underwriting of Euro-currency facilities — as the Bank of England has already done and as other central banks are studying. But bankers active in the market say their institutions already have their own prudential measures against capital adequacy.

In any event, the renegotiation of the terms on Sweden's \$4-billion multi-option credit facility and the terms on Thailand's new \$500-million facility indicate no hardening in terms and conditions for top borrowers.

The size of the Swedish facility is to be cut in half. To date, it has never had outstanding more than \$1.5 billion worth of short-term

notes and currently has outstanding only \$1.1 billion. Thus, paying banks an annual fee to keep \$4 billion available seemed excessive.

Reflecting the change in market conditions since the facility was arranged in mid-1984, the annual fee of 1 1/2 percent (1.25 percent) is also to be cut, to 5 basis points for the first 5 years and to 6 1/2 basis points for the final 3 1/2 years remaining on the original life.

The fee Sweden will pay if it draws against the facility has also been reduced. The minimum charge is now 10 basis points over the London interbank offered rate, instead of 12 1/2, and rises to 20 basis points if more than half the amount is drawn and to 25 basis points if more than 75 percent is used.

At present, these terms are academic. Sweden last week put up \$200 million of short-term notes for sale and bids ranged from 5 1/2 to 10 basis points below the London interbank bid rate. The bid rate is 12 1/2 basis points below the offered rate. The weighted average cost on last week's offering, managers said, was 7 1/2 basis points below Libid.

The banks accepting the new terms will be paid a renegotiation

fee ranging from 5 basis points for those underwriting \$70 million to 1 basis point for underwriting \$15 million or less.

Three technical changes in the original agreement are also worth noting. If Sweden wants to draw, it must notify the lender panel of banks who then submit bids. Now, however, members of the lender panel need not wait for a request for terms from Sweden but can bid for their own proposals in function of the demand from their own investor clients.

When Sweden does request terms, the notice period will be shortened to half a day from the previous seven days.

In addition, instead of issuing only notes denominated in U.S. dollars, Sweden can issue paper in whatever currency it is legal to do so. Thailand's \$500-million facility will run for 10 years and will replace two credit lines arranged in 1983 and 1984. It is paying an annual commitment fee of 25 basis points on those lines; drawings were in cost 1/4 point over Libid. The annual fee is now being cut

to 10 basis points and the cost to draw starts at 1/4 point over Libid. This rises by 5 basis points if more than one-third is drawn and by 10 basis points if more than two-thirds is used.

Front-end fees range up to 7 1/2 basis points on an underwriting of \$25 million and 15 basis points on the final allotment. Thailand can issue notes or seek advances from banks in any currency and drawings under the revolving credit can be based on Libid, treasury bills or any other reference rate that borrower and lender agree upon.

In the commercial-paper market, where banks operate under a best-efforts basis to place customer paper but are under no obligation to take it themselves, Aspro-Nicholas Holdings Inc. has announced a one-year program to sell up to \$150 million. Sarah Lee Corp., the parent company whose U.S. commercial paper is rated A1-plus, is guaranteeing the paper.

Turin-based Istituto Bancario San Paolo will be issuing up to \$250 million or its equivalent in European currency units in the form of commercial paper or certificates of deposit.

Analysts Say Dollar Is Near Its Low, Predict a Rise

(Continued from Page 1) ward pressure is unlikely in the checked to any great extent by central bank action as export industries in Europe and Japan begin to feel the pinch of the dollar's decline.

"I'd be genuinely surprised to see more policy action to push the dollar lower," said Gary Shilling, head of his own economic consulting firm in New York. "The zeal just isn't there; Japan and Europe are not that eager to lose the one segment of economic growth they have left — exports."

According to some analysts, as much as half of recent West German and Japanese economic growth can be attributed to exports to the United States and to the two countries' ability to underprice U.S. exporters on world markets because of the strong dollar.

West German industry figures, for example, show that six of every 10 cars built there last year, or 61.8 percent of the total, were exported. The figure was about 55 percent for Japan.

According to Mr. Shilling and other economists, figures like these clearly demonstrate why Japan and West Germany cannot tolerate a dollar much weaker than 200 yen or 2.40 DM, their current levels.

"The Japanese are really starting to feel the heat" from a stronger yen, said J. Paul Horne, Paris-based international economist for Smith Barney, Harris Upham. "The government is under a lot of pressure from Japanese industry to keep the yen up. Their exporters are screaming."

minister, who is chairman of the European Finance Ministers' Council, which reviewed the G-5 discussions, said the noncommittal tenor of the G-5 communiqué fairly represented Europe's attitude toward the dollar.

"Roughly speaking, there is a growing feeling among Europeans that the dollar has done its duty" since the September agreement, Mr. Ruding told Reuters. "I do not expect a further major drop in the dollar."

In helping to push the dollar lower, the G-5 partners have at least temporarily defused the primary reason for entering into the agreement; a growing wave of protectionist sentiment in the U.S. Congress spawned by record merchandise-trade deficits and mounting unemployment in American manufacturing.

The United States posted a record merchandise-trade deficit of \$150 billion last year, nearly \$50 billion of which was with Japan. U.S. trade figures are not expected to reflect the benefits of a weaker dollar until the second half of this year because of the time it takes for currency adjustments to work their way through the economy.

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Thus, despite widespread academic agreement that the dollar remains overvalued by as much as 25 percent, analysts agree that the main impetus for a lower dollar is now coming from the United States alone. And, they say, Washington apparently won far less than it wanted at the last meeting of the Group of Five, held in London on Jan. 18-19.

U.S. Consumer Rates

Table of U.S. consumer rates for various financial products like Passbook Savings, Tax Exempt Bonds, Money Market Funds, etc.

Sale of Options for Fixed-Coupon Eurobonds Becomes Fad

(Continued from Page 7) percent paper maturing in 1991, issued at \$35 and carrying a dividend during the first two years of \$3.25, the warrants ended the week at \$36-\$38.

Den Norske appears to be selling warrants, not backed by any existing call features. Its 100,000 three-year warrants can be used to buy 9 1/2-percent bonds maturing in 1996. The warrants were being quoted at \$17.50-\$19.

Despite the activity for warrants, there was little actual demand for the bonds currently on offer. Issues from Citicorp (10 of 1991), the European Community (8 1/2 of 1991), General Motors Acceptance Corp. (8 1/2 of 1991) and TRW (9 1/2 of 1993) traded at discounts of 2 1/2 percent to 2 3/4 percent from their offering price and well outside the commissions paid to underwriters.

million will add liquidity to this beltwater issue, enhancing its value to traders. The new portion was priced at 101 1/4, and, after deducting the 2 1/2-percent commissions, yielded 20 basis points more than the Treasury paper. That was better pricing for the World Bank than on the original issue, which came to market at 28 basis points over the Treasury yield.

Reference to such high coupons naturally leads to the Australian dollar market, where annual coupon runs in the region of 14 1/2 percent. Banco di Roma, Bank of Nova Scotia, Scandinavian Airline System and DSL Bank, a West German government-owned institution, all tapped the market last week.

Worth noting is the fact that Austrian banks, formerly active participants in marketing bonds denominated in Australian and New Zealand dollars, are no longer doing so. The Austrian National Bank has asked the banks in its jurisdiction to not actively sell bonds denominated in what it calls "exotic" currencies and if they do to point out the currency risks.

that the structure would give some kind of tax advantage to investors in Japan. The only other limited appeal of this structure, bankers said, should be to investors who are preparing to retire and move from a high tax bracket to a lower one. Delaying receipt of the interest would result in the income being taxed at a lower rate.

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sharp drop in value of the Australian dollar. A National Bank spokesman said that it was feared that investors "did not realize the high coupon rate may be eaten by losses on the exchange rate."

Bankers said demand for such paper is still coming from the Benelux countries, West Germany and Switzerland. In the floating rate note market, prices on U.S. bank-issued paper were pushed lower by BankAmerica's latest quarterly loss and the omission of its dividend. Three years ago, U.S. bank-issued notes traded about 30 basis points more than any other group. But that advantage disappeared with the weakening of the banks.

According to Salomon Brothers, U.S. bank issues last week were trading at 17 basis points over the London interbank offered rate compared to a low in the previous 12 months of 9 1/2 basis points. By contrast, issues by British and Japanese banks ended the week trading at about 8 1/2 basis points over Libor.

Advertisement for Latin America's Leading News/Business Magazine 'Vision'. Includes text 'CELEBRATING 35 YEARS OF SUCCESS', 'LATIN AMERICA'S LEADING NEWS/BUSINESS MAGAZINE', and 'LA REVISTA INTERAMERICANA vision'. Also features a map of Latin America and a list of representative offices.

Company Results table showing financial data for various companies like Imperial Oil, Dow Jones, FMC, Monsanto, North Amer. Philips, Shell Oil, Transamerica, etc. Columns include Revenue, Profit, and other financial metrics for 1985 and 1984.

Partial advertisement for 'Investors' with text 'Investors' and 'Investment Program'.

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Table with columns: Symbol, Price, Change, Volume. Lists various OTC stocks and their trading activity.

Table with columns: Symbol, Price, Change, Volume. Lists AMEX Most Actives and AMEX Diaries.

U.S., Japan Agree on Replacement Of Pan Am

By Richard Halloran. WASHINGTON — The United States and Japan have agreed that United Airlines could replace Pan American World Airways on trans-Pacific routes...

EUROPEAN COMMUNITY Farm-Price Talks Resume This Week

By Steven J. Dryden. BRUSSELS — The European Community begins its annual battle over farm support prices this week amid warnings that agricultural policy could break the EC budget.

Loan-Selling Trend Raises Concern

(Continued from Page 7) quality loans either because those institutions have a lower cost structure or because they want to lend to...

Soviet Oil Output '85 Better Than Forecast

Agence France-Press. MOSCOW — Soviet oil production in 1985 was 33 million metric tons below the planned target of 628 million tons...

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Treasury Bills

Table showing Treasury bill yields for various maturities.

Last Week's NYSE

Table showing NYSE performance metrics for the previous week.

NYSE Most Actives

Table listing the most actively traded stocks on the NYSE.

NYSE Diaries

Table listing NYSE diary entries and their values.

NYSE Sales

Table showing NYSE sales figures for the week.

American Exchange Options

Figures as of close of trading Friday.

Large table of American Exchange Options with columns for Call/Put, Strike, and Price.

Option & Futures

Table of Option & Futures prices for various commodities and currencies.

ESORTS & GUIDES

Multiple advertisements for travel agencies and escorts, including 'INTERNATIONAL ESCORT SERVICE' and 'ESORTS & GUIDES'.

BOOKS

JOURNALS: 1939-1983
By Stephen Spender, \$19.95, 488 pages.
Random House, 201 East 50th Street, New York, N.Y. 10022.
Reviewed by Richard Eder

TO BE a minor poet, Stephen Spender reflects in his Journals, is to be like minor royalty. "No one — as a former lady-in-waiting to Princess Margaret once explained to me — is happy as that," he adds.

It is not that this perennial Englishman of letters strips himself naked: He is, he insists, "impelled not to be totally candid." He began the "Journals" in a state of depression in 1939, and for the first 10 years or so, they remained stiff and distant.

Then something happened; it is hard to say what. Perhaps, as with others of his countrymen, it took at least a decade for Spender to unburden himself with anyone or anything. In any case, his journals were his companion for nearly 45 years until, like the proverbial worn tweeds, they became more like himself than he was.

The "minor poet" reflection reveals a great deal. After charter membership in what he calls "The Thirties Racket," began to pull — you wrote proletarian poems with Oxford diction, were passionate about other young men, and did not get killed; if possible, fighting in Spain — Spender was marooned in a sense of literary inadequacy. Despite figuring as a middle peak in the Auden-Spender-McNeice-Pennacross, he never grew very high. (The Pennacross has come to seem almost itself, for that matter.) All his life he kept hoping. At 70, he records a scheme to write four really important poems.

As for the lady-in-waiting quote, it is also revealing. Spender, essentially a shore bird, kept making light tracks to wherever the wave was breaking. From 1930s radical, he became an establishment critic, professor, panelist, symposium chairman, traveler in literary politics and, finally, Sir.

This is the unkind version, if you like. But Spender's journals take no past questions of kindness or unkindness. He explored himself and his times for nearly half a century with wit, sensitivity, malice and an oddly open heart and eye. By the end, he is perfectly willing to quote a Seattle airline attendant who remarks: "Gee, a near-celebrity."

This is fair disclosure for a man who confesses himself to be a socker for his name in print: "My heart really does do something journalistic — stop a beat, give a jump — if my eye hooks on to the printed word 'Spender' or even — now I am getting a bit agitated —

any conformation of letters like it. ("Spring for example.") As a founder of Horizon, and later as an editor of Encounter and Index magazines, Spender was in the thick of Britain's steady, Arguing literary life. He knew everyone. Arguing with a friend as to whether the protagonist in T. S. Eliot's "Family Reunion" had committed a real or only symbolic murder, it was a matter of course to hop a cab over to Faber and master of course to ask the author. The Great Man replied in high Elysian that "he did not think it important to know."

Spender's connections were international. He writes about walking past the Payne-Whitney clinic in New York and seeing "a woe-begone man with a look on his face which combined suffering with gentleness and sympathy, lying on a trash can at the edge of the sidewalk." It was Robert Lowell. The two nursed each other. It was a matter of course to ask Lowell's secretary about Lowell's suicide attempt until two nurses came and collected him. There is a piquant encounter with Louis Aragon, a fellow-guest at the Rothschild estate at Mouton, Aragon, one of the last cultural figures reliably available to the French Communist Party, confided that he really detested the Communists because they were liars.

Auden appears throughout. There was a bond, but a good deal of prickliness, as well. Visiting him in Italy, Spender asked for fire in exchange for a pound note so he could buy cigarettes. Auden consulted the pound-exchange rate in the paper, and announced triumphantly that it had gone down in his favor. The meanness stunned and infected. Spender remembered Auden coming and drinking up his wine; and a previous time when it was he who had drunk up Auden's champagne.

Spender ended up ahead, of course. To support his family, he spent years crisscrossing the United States, giving lectures and poetry courses. It was, to some extent, a matter of course. "Have Auden, Will Travel." Spender realized that part of his value was the anecdotes. "People want to know from me about other people, mostly dead," he writes.

Spender could be a shrewd critic, but the critical reflections in the journals tend to be self-conscious and woolly. The literary scene emerges more sharply than the smobish single line, he splendidly evokes the smobish behavior as though he were being at once consciously disappointed and a disappointment.

He says little about his marriages; the first, brief and unhappy; the second, long and apparently serene. He makes various references to his homosexual affairs; among them, a 30-minute encounter with Richard Crossman, later a prominent Labor politician; and a more protracted one with a University of Florida student.

The most vivid note of emotion comes in his references to his son, Matthew. He recalls the child telling him, as they were driving together and he was feeling low: "Don't look like that, Dad, I can't bear it." Later, Matthew announced that he would try to win a scholarship so that Spender could stop his frenetic traveling and concentrate on poetry.

Clearly, the poetry was not there. Spender needed his perpetual tourists to provide material and occasions for a less autonomous, but quite genuine gift. As he intimates towards the end, his Journals contain some of his most valuable work.

Richard Eder is on the staff of the Los Angeles Times.

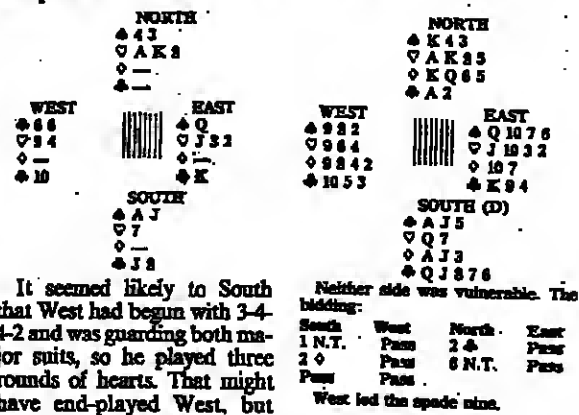
BRIDGE

By Alan Truscott

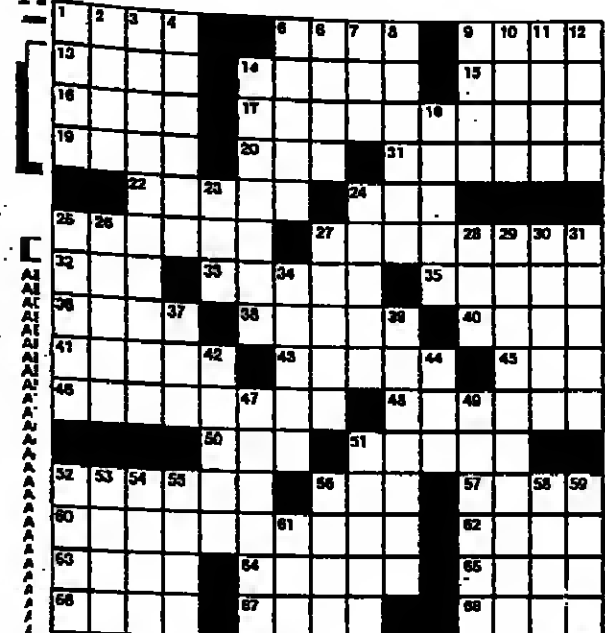
ON the diagrammed deal, from an international team championship tournament both teams reached six no-trump, but the opening lead varied. After the auction shown, West led a spade and South had no trouble. After a slightly different auction, in which South showed some spade strength, West led the heart six and gave the declarer no help.

South won with the heart queen, led to the club ace and continued that suit. He did not know what to do when the queen won, for a third club lead could mean quick defeat. He cashed four rounds of dia-

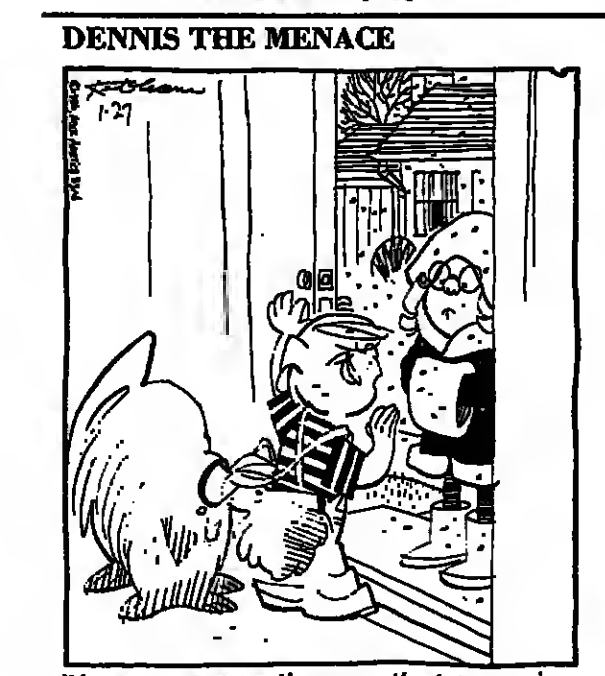
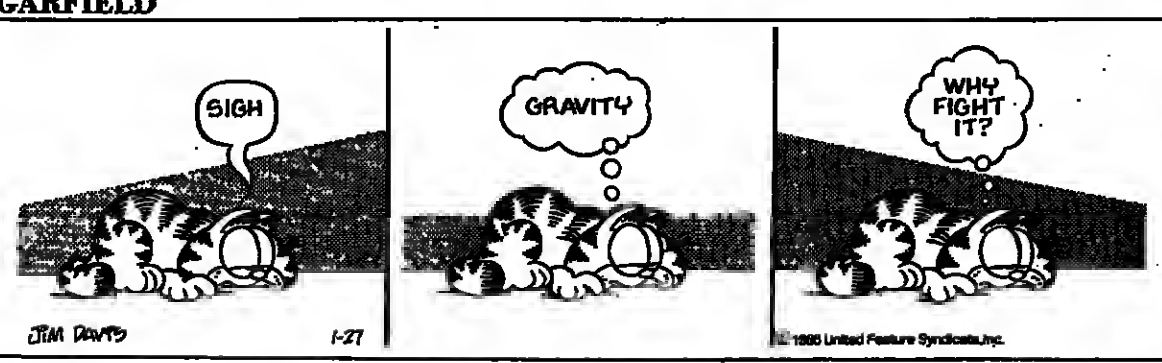
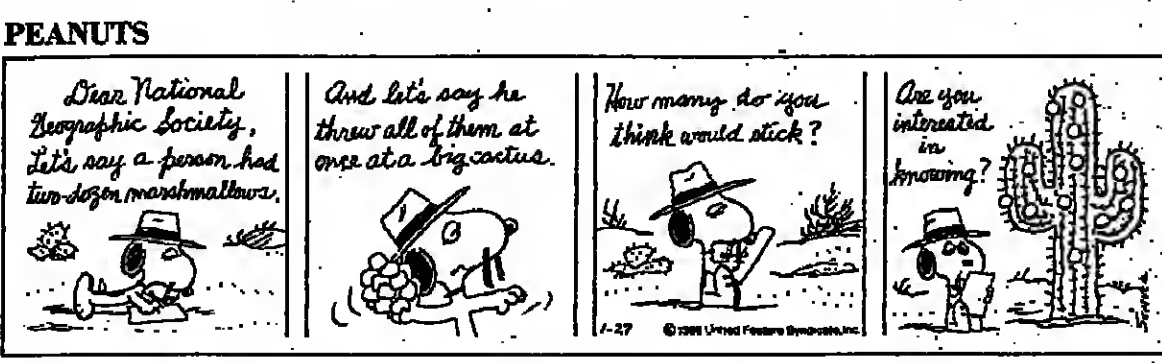
monds, and East, in some trouble, gave up two spades. The spade king was cashed, leaving this position:



It seemed likely to South that West had begun with 3-4-4-2 and was guarding both major suits, so he played three rounds of hearts. That might have ended played West, but East produced the winning heart and the club king to defeat the slam.



ACROSS
1 Russell role
5 Weight
9 Sail sound
13 Asir member
14 Port
15 Morosby's site
16 Marshall Dillon
17 Entranced
18 N., S. or Cent.
20 Tavern drink
21 Molders
22 Rejoin
24 ... if by land ...
25 Dishwater
27 Aardvark or pangolin
32 Mil. address
33 Kind of steel plate
35 Staggard
36 Flood
38 Mend shoes, in a way
40 Something to raise
41 Best and Oliver
43 Dried orchid tubers
45 Set
46 Abjures
48 Comes back
49 Hamibal, to Romans
51 Zola
52 Took a sip



JUMBLE THAT SCRAMBLED WORD GAME
Unscramble these four Jumbles, one letter to each square, to form four ordinary words.
GUCOH
MUJOB
BELUCK
WHOANY

WEATHER table with columns for Europe, Asia, Africa, Latin America, North America, Middle East, Oceania.

SPORTS BRIEFS

East German Women Set Track Marks
BERLIN (Combined Dispatches) — Heike Drechsler of East Germany leaped 23 feet 11 inches (7.29 meters) to break the women's indoor world long jump mark at a competition Saturday in East Berlin, and on Sunday teammate Cornelia Oschkenat ran a women's indoor-best of 6.73 seconds in the 50-meter hurdles.

Sutton Takes 4-Shot Lead in U.S. Golf
PHOENIX, Arizona (AP) — Hal Sutton overcame a balky putter with a 3-under-par 68 Saturday and increased his lead to four strokes in the third round of the Phoenix Open golf tournament.

NHL Suspends Detroit Coach for 6 Games
DETROIT (AP) — The National Hockey League has suspended Brad Park, coach of the Detroit Red Wings, for six games and fined the team \$5,000 in connection with a bench-clearing brawl earlier this month in Toronto.

Ourasi Wins Premier French Trotting Race
PARIS (AP) — Ourasi won the Prix d'Amérique at Vincennes Racecourse on Sunday, bringing his owners 1.1 million francs (\$146,000) in prize money and a record-tying sixth victory in France's premier trotting race for driver Jean-René Gougeon.

Steiner Takes 3d Slalom; Stenmark Ends Drought

58-gate first run on the St. Gervais course with a 155-meter (508-foot) vertical drop in 45.66 seconds. She made the 57-gate second run in 45.38 for a winning total of 1 minute, 31.44 seconds. Another veteran slalom specialist, Perrine Peien of France, was second in 1:31.60, and Mateja Svet, 17, of Yugoslavia was third in 1:31.64.

Stenmark, 29, put together times of 37.33 and 35.26 seconds for an aggregate 1:47.59 on the snow-covered course at St. Anton for his 81st World Cup victory. Rok Petrovic of Yugoslavia was second in 1:47.87, with Jonas Nilsson of Sweden third in 1:47.93.

Stenmark dominated both the giant and special slalom for much of his 12-year career, but last won a slalom in 1984 at Parpan, Switzerland. "Why does he keep going? I love skiing," he said. "I can't explain it any other way."

Men's Downhill Postponed
The Kandahar World Cup men's downhill was postponed Sunday because of heavy snow and fog. Reuters reported from St. Anton. The race was rescheduled for Friday in Wengen, Switzerland.

Michaela Marzola
I didn't think I would win.
The 19-year-old winner's best previous finish had been a fifth place in the downhill and 10th in the giant slalom at Puy St. Vincent. But she took over first place in the super-giant standings with 41 points, one ahead of two West Germans, Hlader and Marina Kishl.



SPORTS

Individual Matchups the Super Bowl Key

By Christine Brennan

NEW ORLEANS — From the broad perspective, Sunday's Super Bowl XX was to be a game between the Chicago Bears and the New England Patriots. But it really came down to a contest between individuals.

Jim McMahon vs. the New England linebackers: Having wreaked havoc throughout Super Bowl week, quarterback McMahon obviously was ready for the game itself. He is competitive and feisty; his mobility and originality have made the Bear offense much, much better. If his sore rear end hampered his ability to run, the Bears could be in trouble. If the Patriots defense, especially outside linebackers Andre Tippett and Don Blackmon, could contain him, the Bears could be in trouble. But McMahon, who never seems to be totally healthy, rolls left and throws better on the run than almost anyone else. He enjoys throwing play-action passes to his wide receivers, especially Willie Gault and Dennis McKinstry. There was no reason to believe that would stop now.

Tony Eason vs. Chicago free safety Gary Feenick: Was quarterback Eason healthy? If he was (he returned to practice Saturday after a mild bout of flu), this could be quite a cerebral matchup. The Bears use their free safety, in the 46 defense, differently from the way most clubs use theirs. He inches closer and closer to the line, and winds up in a linebacking position by the time the ball is snapped. Naturally, the middle of the field is left open, but that works for the Bears because they believe their pass rush will get to the quarterback before he gets the ball to those corners. The Bears usually are right. The thinking in this game was that Eason must read Feenick by the third step when dropping back to pass. First-down plays, especially, were likely to offer the greatest chance for the big play — a Chicago sack, a New England bomb — early in the game.

Chicago right defensive tackle William Perry (325 pounds/147.4 kilograms) vs. New England left guard John Hannah (265 pounds): Hannah is a 13-year veteran who seems to have been going to the Pro Bowl since it started, and this battle would likely be won by experience. Hannah enjoys playing against big linemen who try to throw their weight around. Chicago's defensive coordinator, Buddy Ryan, said he would move left end Dan Hampton to the right side if Perry couldn't do the job. Hampton said Hannah is the "best one-on-one blocker in the league." If it took two Bears to do this job, it would alter the vaunted 46 defense.

Brian Holloway: Obviously, the Pro Bowl left side of the Patriots' offensive line and the right side of the Bears' defensive line would be worth watching. Chicago has the best defensive line in the game, and New England's left side of the offensive line is its stronger side. Dent has become the best pass rusher in the league. He was voted all-time unappreciated in two playoff games. One mistake by Holloway and Dent would be all over quarterback Eason. Holloway, a strong blocker for the run, had to have a good day for New England to win.

Running back Craig James vs. Chicago middle linebacker Mike Singletary: James' most important role might be occupying Pro Bowl Singletary, who sacked Eason three times and had an interception in the season's earlier meeting between the teams. The Patriots were likely to send James on reconnaissance missions out of the backfield to keep Singletary busy in pass coverage.

Running back Willie Payton vs. New England inside linebacker Steve Nasser: Payton can run inside and outside, can block, catch passes, can even throw passes. But he had never had a great day against the Patriots (he hadn't gained more than 70 yards in any of three previous encounters). But the Bears have done well all season against 3-4 defenses. Linebackers Nelson and Larry McGeary are tough against the run and are creating turnovers.

Receivers Stanley Morgan, Stephen Staring and Irving Fryar vs. Chicago cornerback Leslie Frazier and Mike Richardson: Said Fryar, who was back after cutting his hand: "If they have a weakness on defense, and I'm not sure they do, it's in the defensive secondary." Morgan is considered by some to be the best receiver in the Super Bowl, and Staring has 4.4-second speed for 40 yards (35.5 meters). The Patriots were likely to try to isolate Morgan on Richardson, who is more susceptible than Frazier to being bottled on fade passes.

The special teams: The Patriot punt-return team improved with Fryar's return (he led the league with a 14.1-yard average). The Bears had trouble on kickoff coverage this season; the Patriots on punt coverage, New England placekicker Tony Franklin had seven field goals in the playoffs; Chicago's Kevin Butler, a rookie, was good on only 3 of 10 attempts longer than 40 yards this season.



Olson Raises Indoor Vault Record to 19-4

On his first attempt at the height, Billy Olson cleared 19 feet, 4 inches at a track meet Saturday night in Albuquerque, New Mexico, setting his third world indoor pole vault record in a month. On Dec. 28, Olson vaulted a record 19-2 3/4; on Jan. 15, Sergei Bubka of the Soviet Union missed the standard to 19-3, but two days later the American reclaimed the record at 19-3 1/4. "I'm extremely keyed up," said Olson on Saturday. "I could have jumped all night. I'm right on schedule — I'm really looking forward to the meeting with Bubka at the Millrose Games," Feb. 14 in New York. "I can't say who will do it, or when, but there will be a 20-foot vault someday."

Magic Gone, Lakers Drop 3d Straight

Compiled by Our Staff From Dispatches INGLEWOOD, California — The National Basketball League champion Los Angeles Lakers have fallen apart in the absence of Earvin (Magic) Johnson. The Denver Nuggets, a team battling a slump, took charge midway through the second quarter here Saturday night and never looked back in blowing out the Lakers, 127-115. Hobbled by a sore right knee, an obviously below-par Johnson played in a 110-95 massacre Wednesday night in Boston and on Friday he watched the Lakers lose to the crosstown Clippers, 120-109. He was on the bench again Saturday.

Among the problems the Lakers have when Johnson is missing are the absence of a fast break, poor rebounding and a disorganized half-court offense. Johnson is the NBA's assists leader at 13.1 per game. Adding to the woes of Coach Pat Riley, two other players are ailing. Maurice Lucas missed the second half against Denver because of diz-

Some Telleales of Two Sky-High NFL Cities

By Fox Butterfield

BOSTON — Growing up in the nearby industrial city of Brockton, John Boyajian could never bring himself to be a fan of the New England Patriots. "They were such a disappointment," he recalled. "A few wins and then they'd die." Boyajian, 33, a caviar importer, was like many people in New England. Accustomed to the winning tradition of the Boston Celtics, the heroes of the Boston Bruins and the perpetual drama fostered by the Boston Red Sox, they scoffed at the Pats. In their 27 years of existence the Patriots were best known for such things as calling a former player out of the stands, on the public address system, to return the opening kickoff. But suddenly Boyajian and nearly everyone else in Boston had what was being called Patriot fever. Kindergarten at the Upland School in suburban Weymouth, where soccer has virtually replaced football as a fall sport, spent Friday making Patriot hats and pennants. The Penobscot Indians in northern Maine sent the team 30 pounds of fresh bear meat, and a tanned skin from a black bear that was recently shot on their reservation. According to tribal tradition, giving a hunter a taste of flesh from a hunted animal helps him find and kill his prey, said the Penobscot's governor, Timothy Love. When the Patriots left last week for New Orleans they were cheered by a crowd of 10,000 at Green Airport in Warwick, Rhode Island. After the Patriots upset the Miami Dolphins in the American Football Conference title game two weeks ago, Boyajian was so ecstatic he could not sleep all night. He managed to get two Super Bowl tickets, he explained, by trading 400 pounds of lobster to the Hotel Intercontinental in New Orleans, where the Patriots are staying. The team, it seems, had ordered the lobster for dinner.

SCOREBOARD

Table containing various sports scores including European Soccer, Hockey, National Hockey League Standings, World Cup Skiing, and Transition. It lists teams, scores, and game details.

Basketball



Georgia Tech's Antoine Ford squeezed this pass between Joe Wolf (left) and Kevin Madden, but Wolf's 22 points helped unbeaten North Carolina to an 85-77 victory on Saturday.

Table containing National Basketball Association Standings, Selected U.S. College Scores, and NBA All-Star Teams. It lists conference standings, college game results, and the names of all-star players.

Additional sports news snippets and updates.

Additional sports news snippets and updates.

Charlie Chaplin, Gossip, Clairvoyants and the FBI

By Irvin Molotsky
New York Times Service

WASHINGTON — In preparing his latest biography, David Robinson, a British writer, asked the U. S. Federal Bureau of Investigation for its records on his subject. He was pleased that the FBI responded so quickly, within about nine weeks, and surprised by the extent of the federal investigations.

It couldn't happen again, says Thomas H. Bresson, an official of the agency's records division. "We will not collect any information that is not relevant to our purpose," which he defined as investigations of violations of federal law.

Robinson was also astonished by "the degree of sloppiness and stupidity that many of the reports reveal," by the bureau's reliance on information on the comedian provided by the gossip columnists Hedda Hopper and Louella Parsons, by the bureau's seeming fascination with Chaplin's sex life and by exaggerated reports of the comedian's contributions to leftist causes.

Today the bureau says the investigation of Chaplin, who lived abroad much of his life but returned to the United States to be honored for his work in films, was part of an era that it wants to put behind it. It cannot happen again, the bureau says.

Thomas H. Bresson, a deputy assistant director in the agency's records management division, said "We will not collect any information that is not relevant to our purpose," which he defined as investigations of violations of federal law.

He suggested that the extensive Chaplin file was a consequence of the interest of J. Edgar Hoover, the longtime director of the bureau, in keeping abreast of such things. "We wouldn't be able to do something like that today," Bresson added, "because it doesn't relate to any investigative purpose."

Robinson, whose recently published book, "Chaplin: His Life and Art" (McGraw-Hill), was praised by reviewers, is the film critic of the London newspaper The Times. Reached at his London home, he said he had obtained the file through a request under the Freedom of Information Act filed for him by a New York lawyer, Charles L. Mandelstam, but had sought the material too late to include in his book other than as a brief appendix.

The investigation of Chaplin's sex life included bugging his hotel rooms, and was spurred by charges by Joan Barry, a young actress, that Chaplin was the father of her unborn child. That investigation eventually filled 400 pages. A blood test taken after Barry gave birth showed that Chaplin was not the father.

The London-born comedian got into a dispute with U. S. immigration officials and chose to live from 1952 onward in Switzerland with his wife, Oona, the daughter of the playwright Eugene O'Neill. O'Neill had objected vigorously to the marriage in 1943 of his 18-year-old daughter to the 54-year-old Chaplin.

In 1972, five years before his death, Chaplin returned briefly to New York to accept a special Oscar from the Motion Picture Academy.



The FBI file on Charlie Chaplin contained 1,900 pages.

kings reported that Chaplin spoke out at the reception against censorship of films.

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between the FBI and gossip columnists was a two-way street.

"The FBI was not only using the gossip of these vespertine ladies as feeding information to them," One such memorandum to Parsons carried the notation, "To be destroyed after action is taken and not sent to files," but it did find its way somehow into the files.

Asked if an exchange with gossip columnists could happen at the FBI today, Bresson said, "In current days, we are not in the habit of collecting gossip from anyone." Of feeding derogatory information to columnists, he said, "It is inconceivable in this day."

Robinson's Freedom of Information Act request showed that the FBI's interest in Chaplin reached beyond death, since the last entry occurred in 1978, after grave robbers stole his body from a cemetery in Switzerland on March 1 and held it for ransom.

lin's body in a basement in West Germany, Robinson said, reading from the file. All of the clairvoyant's information was carefully taken down by the FBI.

"She stated that the body was stolen by two men and one woman," Robinson read. "She stated that one of the men was named Shocoman or Shocmann. However, she did not receive a good vision of this person and could not describe him further."

The information, stamped "Secret," was relayed to the FBI office in Boston, then to Washington and finally to Bonn, where the bureau's representative passed it along to the local police. The body was in fact in Switzerland and was recovered by the police on March 17.

Bresson was asked why the FBI had pursued a tip from a clairvoyant. "We were just a conduit, furnishing information," he answered. Does the bureau normally deal with psychics? "No, but in some investigations, we run them down. I wouldn't rule it out."

LANGUAGE

Secular Humanism and Flaky People

By William Safire

WASHINGTON — "Do you know what secular humanism is?" asked Norman Lear a few months ago in a letter.

A spokesman for Lear's People for the American Way says, "Trying to define secular humanism is like trying to nail Jell-O to a tree." The organization sought to show that the phrase has no widely accepted meaning and thus did not belong in legislation.

Definitions do vary. Secular humanism, in the evangelist James Kennedy, is a "godless, atheistic, evolutionary, amoral, collectivist, socialist, communistic religion" posing a threat to schoolchildren. To Michael J. Rosenberg, editor of Near East Report, "Secular humanism has become the new label employed to indict anyone who opposes school prayer, believes in evolution, or disagrees with the religious right's views on abortion." Roy R. Torcaso, an outspoken atheist who was plaintiff in the 1961 case in which the phrase was popularized, and is one of the few people who still calls himself a secular humanist, cites the definition given by Corliss Lamont in his book "The Philosophy of Humanism," "joyous service for the greater good of all humanity in this natural world and advocating the methods of reason, science and democracy."

I would describe most secular humanists as ethical atheists who try to do good without believing in God. But this is not the "flaky" definition, as many humanists are agnostics and some who accept the label are churchgoers. No pop lexicographer can lay down the law on what the phrase means. I can only report what disputants say it means, and put forward a definition that encompasses its different senses.

In 1984, Senator Orrin G. Hatch of Utah wrote a paragraph in an education bill saying that federal money for magnet schools may not be used "for courses of instruction the substance of which is secular humanism." Last year, the U. S. Department of Education decided not to define the term, but to leave its definition up to local schools. That raised a further ruckus. Hatch's spokesman explained the intent of the original phrase in the legislation was to make sure that magnet schools improve their curriculums and not get into "soft stuff" such as personal values or courses in lifestyle; the controversial phrase was dropped in the current legislation. The civil-liberties groups and Lear, won this round.

The phrase was probably taken from a footnote in the decision written in 1961 by Justice Hugo L. Black in *Torcaso vs. Watkins*, which in turn was taken from an amicus brief in that case written by Joseph L. Blau, professor emeritus of religion at Columbia University. The footnote's point: "Among religions in this country, however, which do not teach what would generally be considered belief in the existence of God are Buddhism, Taoism, Ethical Culture, Secular Humanism and others."

Go back further, to 1952, and an essay by C. Wright Mills: "Liberals have repeatedly articulated a secular humanism, stressing the priceless value of the individual personality." The first citation in Merriam-Webster's files is from a religious work in 1933, William G. Peck's "The Social Implications of the Oxford Movement," in which secular humanism is opposed to "Catholicism: 'In face of this secular humanism, the return of the Oxford leaders to Catholic doctrine and

practice necessarily signified a criticism of the standpoint, and the provision of a positive alternative."

How does this etymology help us understand the furor raised by the phrase? Secular is an adjective that means "worldly, or religious or other-worldly"; humanism is "a concept for the human condition." The modifier secular phrases the nonreligious character of the fuzzy neologism. I think the phrase was coined by growing number of clergymen, especially evangelists to be a euphemism for atheist.

No doubt, a goodly number of secular humanists are atheists; to them, however, the phrase's subtext is a much broader philosophy of values stressing individualism, acting rightly motivated by the fear of God or promise of Heaven.

That broadening made secular humanism an even more inviting target to preschoolers than atheists. For so long, there was a way to slant opposition to prayer in schools, to castigate sex education in schools to blast abortion — all potent social issues — while mixing in disapproval of the drug culture, permissiveness, pornography, short skirts and five-in-lovers, and tying all these in to a rejection of belief in God. The target was Heaven-sent, or heaven-sent, as you prefer.

People who disagreed with many fervent religionists on one or more of the social issues but who firmly believed in God, resented being lumped in with atheists and all the others. They saw secular humanism as a linguistic bludgeon, a chance to beat over the head all who oppose "the religious right" with a club incorporating all the issues.

That's what the fight over a phrase is about: secular humanism may be defined as: 1. a philosophy of ethical behavior unrelated to a concept of God; 2. a characterization of an emphasis on individual moral choices as having the common denominator of atheism; 3. an attempt to besetear political opponents by impugning their faith in God.

It's a bare-knuckles fight, and etymology, lexicography and semantics are right in the middle of it.

PRESIDENT Ronald Reagan in a 1964 campaign called the Libyan leader, Moammar Qadhafi, "flaky." Although Shakespeare used the adjective in "Richard III" to describe the breaking of dawn — "and flaky darkness breaks within the east" — the word, in its current slang meaning of "off-beat, eccentric," was first reported by Leonard Koppett in *The New York Times* in 1964. Baseball players like Joe Peiponen, Jim Bouton and Phil Lutz were said to be flaky.

The term appears to have replaced kooky as a synonym for "nutty," although, as Reagan pointed out, it is not used to mean "mentally deranged," a more serious affliction. It is sometimes spelled *flakky*, to ensure pronunciation with a long *a*, to differentiate it from *flack*, meaning "criticism."

The last time flaky was used politically was in derogation of Governor Jerry Brown of California, who responded vigorously by denouncing those in favor of building bigger nuclear power plants: "They are the flakes."

New York Times Service

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